Royal Bank of Canada 2001 Annual Report

/ Focused growth

/ Corporate profile

/ Royal Bank of Canada (RY on the TSE and NYSE) and its subsidiaries, operating under the masterbrand RBC Financial Group, is one of North America's premier diversified financial services companies and, within Canada, the leader in most of its businesses. In all, we serve more than 12 million personal, business and public sector clients worldwide.

In Canada, we have strong positions in all personal and commercial banking product lines. In wealth management, we have the largest private banking, full-service brokerage (by assets) and mutual fund operations among Canadian banks (second-largest among all fund providers), and we own the second-largest self-directed broker, Action Direct. In corporate and investment banking, we continue to be the top-ranked securities underwriter and among the top mergers & acquisitions (M&A) advisors. We are the largest Canadian bank-owned insurer and one of the fastest growing in the country. We are the leader in travel insurance and creditor products. We also have by far the largest custody operations in the country. Our domestic delivery network includes more than 1,300 branches and other units, and over 4,200 banking machines. Currently, we have 1.9 million online and 2.3 million telephone clients.

Internationally, we provide personal and commercial banking, mortgage origination, insurance, full-service brokerage, and corporate and investment banking services to over two million clients in the United States through RBC Centura, RBC Prism Mortgage, RBC Liberty Insurance, RBC Dain Rauscher and RBC Capital Markets. We also have a retail network in the Caribbean. Outside North America, we provide corporate and investment banking, trade finance, correspondent banking, treasury and securities custody services to business clients, and private banking services to individuals. We have a major presence in the global reinsurance market. Our international network includes 724 offices in more than 30 countries.

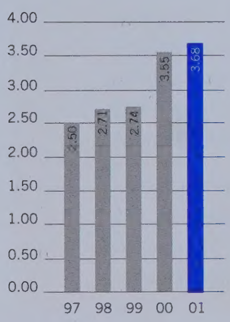
/ What's inside

/ Financial highlights (1)

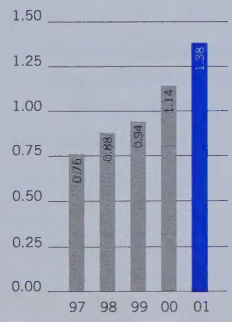
(C$ millions, except per share and percentage amounts)	% change 2001/2000	2001	2000	1999	1998	1997
Earnings						
Net interest income (2)	23%	$ **6,529**	$ 5,307	$ 5,152	$ 5,101	$ 5,032
Non-interest revenue	22	**8,155**	6,680	5,491	4,997	4,288
Gross revenues (2)	22	**14,684**	11,987	10,643	10,098	9,320
Provision for credit losses	62	**1,119**	691	760	575	380
Non-interest expenses	26	**9,641**	7,628	7,141	6,510	6,071
Net income	10	**2,435**	2,208	1,725	1,772	1,654
Cash net income (3)	19	**2,721**	2,296	1,792	1,838	1,717
Core cash net income (3)	10	**2,517**	2,296	1,880	1,855	1,710
Return on common equity	(270)bp	**16.6%**	19.3%	15.3%	17.6%	18.3%
Cash return on common equity (3)	(160)bp	**18.6**	20.2	15.9	18.3	19.1
Core cash return on common equity (3)	(310)bp	**17.1**	20.2	16.9	18.5	19.0
Economic Profit (4)	(18)%	$ **583**	$ 714	$ 337	$ 461	$ 375
Balance sheet and off-balance sheet data						
Loans	8%	$ **181,100**	$ 167,812	$ 154,050	$ 157,392	$ 149,955
Assets	23	**362,483**	294,054	273,298	281,074	247,079
Deposits	14	**235,687**	206,237	187,897	180,005	173,229
Common equity	44	**16,215**	11,296	10,435	9,748	8,878
Assets under administration	14	**1,337,700**	1,175,200	967,800	829,200	783,300
Assets under management	14	**104,800**	92,300	81,600	73,400	67,700
Capital ratios (Canadian basis) (5)						
Common equity to risk-adjusted assets	210 bp	**9.4%**	7.3%	7.1%	6.2%	5.8%
Tier 1 capital	10	**8.7**	8.6	8.1	7.4	6.8
Total capital	(20)	**11.8**	12.0	11.2	10.5	10.0
Capital ratios (U.S. basis) (6)						
Common equity to risk-adjusted assets	230	**9.5**	7.2	7.0	6.1	5.8
Tier 1 capital	30	**8.1**	7.8	7.6	6.8	6.4
Total capital	(10)	**11.2**	11.3	10.7	10.1	9.8
Common share information						
Shares outstanding (in thousands)						
End of year	12%	**674,021**	602,398	617,768	617,581	616,671
Average basic	6	**641,516**	606,389	626,158	617,324	617,812
Average diluted	6	**647,216**	609,865	632,305	633,626	632,052
Earnings per share						
Basic	5	$ **3.58**	$ 3.42	$ 2.50	$ 2.64	$ 2.46
Diluted	4	**3.55**	3.40	2.48	2.58	2.42
Cash diluted (3)	13	**4.00**	3.55	2.60	2.69	2.52
Core cash diluted (3)	4	**3.68**	3.55	2.74	2.71	2.50
Share price						
High (7)	9	**53.25**	48.88	42.13	46.10	38.23
Low (7)	53	**41.60**	27.25	29.65	28.75	22.00
Close	(3)	**46.80**	48.30	31.73	35.55	37.68
Dividends per share	21	**1.38**	1.14	0.94	0.88	0.76
Book value per share – year-end	28	**24.06**	18.75	16.89	15.78	14.40
Market capitalization ($ billions)	8	**31.5**	29.1	19.6	22.0	23.2
Number of:						
Employees (full-time equivalent) (8)	17%	**57,568**	49,232	51,891	51,776	48,816
Automated banking machines (9)	1	**4,548**	4,517	4,585	4,317	4,248
Service delivery units						
Canada	(1)	**1,317**	1,333	1,410	1,422	1,453
International (10)	137	**724**	306	99	106	105

(1) Financial measures are derived from U.S. GAAP consolidated financial statements, unless otherwise noted.
(2) Taxable equivalent basis.
(3) Cash net income, cash return on common equity and cash diluted earnings per share are computed by adding back to net income the after-tax amount of amortization of goodwill and other intangibles. Further deducting the impact of special items detailed in Table 4 on page 20 results in core cash net income, core cash return on common equity and core cash diluted earnings per share.
(4) Economic Profit is cash operating earnings (i.e., net income available to common shareholders excluding the after-tax impact of special items and amortization of goodwill and other intangibles) less a charge for the cost of common equity.
(5) Using guidelines issued by the Superintendent of Financial Institutions Canada and Canadian GAAP financial information.
(6) Using guidelines issued by the Board of Governors of the Federal Reserve System in the United States and U.S. GAAP financial information.
(7) Intraday high and low share prices.
(8) The number of employees includes 1,042 at RBC Liberty Insurance, 3,803 at RBC Dain Rauscher, 3,234 at RBC Centura, and 286 at Perpetual Fund Services. The employees of Tucker Anthony Sutro Corporation (2,311 at October 31, 2001) will be included in the total commencing 2002.
(9) Excludes account updaters. Includes 256 automated banking machines for RBC Centura in 2001.
(10) International service delivery units include branches, specialized business centres, representative offices and agencies. The number of international service delivery units includes 103 for RBC Dain Rauscher, 240 for RBC Centura and 264 for RBC Prism Mortgage.

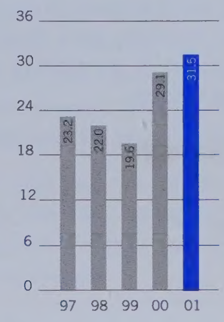
CORE CASH DILUTED EARNINGS PER SHARE (C$)



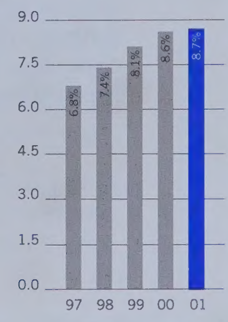
DIVIDENDS PER SHARE (C$)



MARKET CAPITALIZATION (C$ BILLIONS)



TIER 1 CAPITAL RATIO (CANADIAN BASIS)



/ RBC at a glance

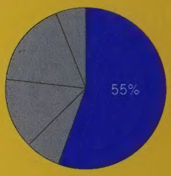
/ Business profile

/ Share of RBC 2001 cash net income (1)

Personal & Commercial Banking

RBC Royal Bank
RBC Centura
RBC Prism Mortgage
RBC Builder Finance
RBC Royal Bank of Canada

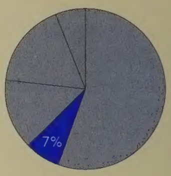
Personal & Commercial Banking serves over 11 million individuals, small and medium-sized businesses, and commercial clients in Canada, the U.S., the Caribbean and The Bahamas. Distribution capabilities include a network of branches, business banking centres and other sales units, mobile sales representatives, automated banking machines, and telephone and Internet banking channels. Financial services include deposit accounts, investments and mutual funds, credit and debit cards, business and personal loans, and residential and commercial mortgages, all supported by financial advice.



Insurance

RBC Insurance
RBC Liberty Insurance

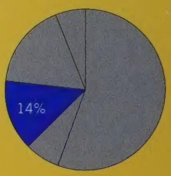
Insurance provides a wide range of creditor, life, health, travel, home and auto insurance products and services to more than five million North American clients as well as reinsurance to business clients around the world. These products and services are offered through a wide variety of distribution channels, including the telephone, independent brokers, travel agents, a proprietary sales force and the Internet.



Wealth Management

RBC Investments
RBC Dain Rauscher
RBC Global Private Banking
RBC Global Investment Management

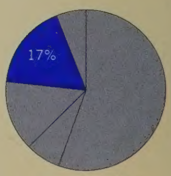
Wealth Management provides direct and full-service brokerage, financial planning, investment counselling, trust, private banking, mutual funds and investment management services to private clients in Canada, the U.S. and internationally. Products and services are delivered through the bank's branch network across Canada, RBC Investments offices, private banking offices and other locations worldwide. Services are also delivered via the Internet and telephone. Through recent acquisitions, U.S. clients are served primarily in a full-service brokerage capacity in 41 states.



Corporate & Investment Banking

RBC Capital Markets

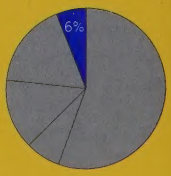
Corporate & Investment Banking serves corporate, government and institutional clients in North America and in selected product and industry niches globally. Headquartered in Toronto, with key centres of expertise in Minneapolis, New York and London, and offices in 29 other cities, this business offers North American expertise in the energy, communications, health care and technology sectors, and global expertise in the resource sectors. It is also globally competitive in Canadian securities, equity and credit derivatives, M&A, structured finance, foreign exchange and Eurobonds.



Transaction Processing

RBC Global Services

Transaction Processing offers specialized transaction processing services to commercial, corporate and institutional clients in domestic and select international markets. Key businesses include custody, correspondent banking, cash management, payments and trade finance.



(1) Excluding special items detailed in Table 4 on page 20.
Financial measures are derived from U.S. GAAP consolidated financial statements, unless otherwise noted.

/ Strategy highlights

/ Key operating highlights

/ Core financial highlights (1)

- Accelerate U.S. growth through continued development of U.S. capabilities and expansion in targeted personal and commercial markets
- Sustain cost management focus, offsetting volume increases and new initiatives with cost reductions

- Acquired North Carolina–based Centura Banks, Inc.
- Launched Moneris Solutions with Bank of Montreal to offer North American merchants simplified transaction processing
- Signed agreement to provide mobile mortgage application software to mortgage specialists

(C$ millions, taxable equivalent basis, except percentage amounts)	% change	2001	2000
Gross revenues	13%	$ 7,090	$ 6,271
Non-interest expenses	12	4,125	3,684
Cash net income	24	1,395	1,124
Economic Profit	27	456	360
Cash return on common equity (ROE)	(60)bp	20.0%	20.6%
Number of employees (full-time equivalent)	10%	34,849	31,610

- Expand distribution channels, add new products and enhance products in Canada
- Continue to expand in the U.S.
- Maximize efficiency by integrating systems, services and structure in North America across business lines

- Acquired Liberty Life Insurance and Liberty Insurance Services
- Consolidated most Canadian insurance operations at the new Meadowvale Business Complex in Mississauga, Ont.
- Enhanced Insurance Web site at *rbcinsurance.com* and launched online access to home and auto insurance quotes

(C$ millions, taxable equivalent basis, except percentage amounts)	% change	2001	2000
Gross revenues	119%	$ 542	$ 247
Non-interest expenses	117	375	173
Cash net income	83	188	103
Economic Profit	7	72	67
Cash ROE	(1,750)bp	21.9%	39.4%
Number of employees (full-time equivalent)	96%	2,583	1,318

- Continue to identify and segment client base to tailor distribution channels and develop appropriate investment solutions
- Develop market leadership in the financial planning industry
- Protect and grow domestic franchise while expanding U.S. and U.K. distribution

- Purchased Minneapolis-based Dain Rauscher and Boston-based retail brokerage Tucker Anthony Sutro, with combined entity to be called RBC Dain Rauscher
- Divested businesses unrelated to retail investors – RT Capital Management and Group Retirement Services division

(C$ millions, taxable equivalent basis, except percentage amounts)	% change	2001	2000
Gross revenues	23%	$ 3,075	$ 2,497
Non-interest expenses	46	2,691	1,846
Cash net income	(19)	352	437
Economic Profit	(69)	97	309
Cash ROE	(3,240)bp	18.4%	50.8%
Number of employees (full-time equivalent)	39%	10,512	7,553

- Expand market position in targeted U.S. industry sectors
- Increase market penetration in asset securitization and broaden share of the U.S. market in high-yield debt and alternative assets
- Build global niches in trading, distribution and structuring

- Established as a strong player in the alternative asset management business globally
- Experienced significant growth in the client base and transaction volume of proprietary Web-based foreign exchange trading program, FX Direct®
- Announced restructuring that better positions the business for future North American growth

(C$ millions, taxable equivalent basis, except percentage amounts)	% change	2001	2000
Gross revenues	19%	$ 2,781	$ 2,330
Non-interest expenses	24	1,804	1,456
Cash net income	(21)	417	527
Economic Profit	(123)	(44)	194
Cash ROE	(1,020)bp	11.8%	22.0%
Number of employees (full-time equivalent)	16%	2,954	2,541

- Leverage client relationships and leadership position in Canada to develop new business in select domestic and international markets
- Grow the business through key alliances, acquisitions and partnerships
- Align and build new product and service propositions, such as offering outsourced mutual fund administration

- Acquired Australia-based Perpetual Fund Services
- Received prestigious *CIO Canada*'s ITX Award for the ViewFinder® custody eBusiness segment
- Performed strongly in key international client satisfaction surveys

(C$ millions, taxable equivalent basis, except percentage amounts)	% change	2001	2000
Gross revenues	6%	$ 713	$ 674
Non-interest expenses	4	476	459
Cash net income	7	152	142
Economic Profit	5	85	81
Cash ROE	(270)bp	31.1%	33.8%
Number of employees (full-time equivalent)	24%	2,553	2,061

/ Chairman's message

/ Guy Saint-Pierre, O.C.
Chairman of the Board

I am honoured to be reporting to you as the new Chairman of the Board of Directors of Royal Bank of Canada.

Royal Bank of Canada announced its intention to separate the role of Chairman from that of Chief Executive Officer in February 2001. The separation of the roles represents the board's determination to be flexible and to evolve to meet the needs and expectations of shareholders and other stakeholders.

My appointment to the Chairman's Office coincided with the retirement of John E. Cleghorn as Chairman & Chief Executive Officer on August 1, 2001. John Cleghorn's legacy to the organization includes unprecedented financial performance, the solid foundation of a U.S. expansion strategy and the assembly of an outstanding senior management team. On behalf of the Board of Directors and our shareholders, I would like to thank John Cleghorn for his outstanding contribution. We look forward to working with Gordon M. Nixon as President & Chief Executive Officer and with the rest of his senior management team.

On behalf of the Board of Directors, I want to acknowledge the performance of our employees throughout the world. The past year presented some daunting challenges. We appreciate their outstanding and tireless efforts to achieve success.

The corporate governance practices and principles at Royal Bank of Canada are set out on pages 94 and 95 of this Annual Report and in the Management Proxy Circular issued in connection with the 2002 Annual Meeting.

As Chairman, I remain intent on ensuring that our Board of Directors continues to be well informed about our business and the competitive, economic and regulatory environments in which it operates, and that the board remains well balanced in terms of experience and skills, independent while retaining a good relationship with management, focused on continuous improvement and flexible to adapt to changing circumstances. The board is committed to supervising and working with management to understand, monitor and oversee the company's goals, risk management and strategic direction. While continuing to operate in a challenging environment, employees, management and the board remain committed to providing shareholders with superior returns.

/ Guy Saint-Pierre, O.C.
Chairman of the Board
December 11, 2001

/ Chief Executive Officer's message

/ Gordon M. Nixon
President & Chief Executive Officer

/ Focused growth

I am delighted to report that in a year of significant challenges we recorded strong financial performance for our shareholders. Following a decade of unprecedented economic growth, 2001 brought substantial economic weakness that was compounded by the terrorist attacks of September 11. As a result, we experienced much weaker capital markets, significant restructuring in many industry sectors and higher than anticipated loan losses. Notwithstanding this, and substantial upfront costs associated with recent acquisitions, we generated record earnings and an 18.6 per cent cash ROE for our shareholders this year.

One of management's important challenges is balancing the desire for short-term returns with the necessity of long-term growth. During the year, we forged ahead with the implementation of a growth strategy for North America and selected global markets without compromising our short-term fundamentals. We have a very strong domestic franchise and we are capitalizing on our expertise to build a strong North American financial services company with niche operations in international markets. We launched a new global brand this year and the RBC prefix was attached to each of our business platforms and operating subsidiaries. This brings a cohesiveness to our businesses, while maintaining the brand equity that had been built in our various businesses.

I credit our strong performance in 2001 to our employees, our customer relationships and our diversified businesses. Our people did a tremendous job and are to be commended for their dedication and ongoing commitment to building relationships and delivering value to our clients, shareholders and communities. Our emphasis on building strong, enduring relationships with our clients encourages them to entrust more of their business with us, knowing that we will do our utmost to help them realize their financial goals. In addition, we believe the diversification of our businesses serves us well in stabilizing our returns. For example, weak capital markets and higher provisions for credit losses this year reduced the earnings of Wealth Management and Corporate & Investment Banking, respectively – both segments that had shown strong performance over the past few years. However, the remaining three business segments recorded very solid earnings growth in 2001.

This past year, we continued to pursue our three major priorities – strong fundamentals, international expansion and growth of high-return, high-P/E multiple businesses.

/ Peter W. Currie
Vice-Chairman &
Chief Financial Officer

/ Suzanne B. Labarge
Vice-Chairman &
Chief Risk Officer

/ Martin J. Lippert
Vice-Chairman &
Chief Information Officer

/ W. Reay Mackay
Vice-Chairman
Wealth Management

/ Strong fundamentals

We had a solid year, reporting record net income of over $2.4 billion, up 10 per cent from 2000. Excluding special items and amortization of goodwill and other intangibles, core cash net income was $2.5 billion, also up 10 per cent, while core cash earnings per share were $3.68, up 4 per cent.

Compared to our aggressive objectives for 2001, shown on page 6, we performed very well this year in the areas of revenue growth and capital management. Four of our five business segments recorded solid double-digit revenue growth. In addition, excluding acquisitions, operating expenses showed no growth over 2000 whereas operating revenues grew 3 per cent. While growth in cash earnings per share and cash ROE met the objectives, excluding special items, they fell short due primarily to weaker capital markets, higher loan loss provisions and the costs associated with our recent acquisitions and downsizing efforts.

As we enter 2002, we have established objectives that reflect our expectation of continued economic softness in the first half of the calendar year.

While adjusting our businesses to ensure that we perform in tough markets in the short term, we continue to position ourselves for sustained long-term growth and performance.

/ International expansion

We took major steps this year to develop our U.S. retail banking, full-service brokerage and insurance operations through acquisitions, while building our international niche businesses in Corporate & Investment Banking and Transaction Processing. Details of our international expansion efforts are provided on pages 8 to 10.

Our greatest short-term priority for the U.S. is to maximize returns, by enhancing operating efficiencies and leveraging each segment for revenue growth. Our future expansion will remain highly focused and disciplined, targeted to those markets and businesses that promise high growth and strong returns.

OUR VISION

is to be a leading North American financial services organization, pre-eminent in Canada, with global niche businesses in those areas where we have a competitive advantage.

OUR FOCUS

is on improving performance in each of our businesses to achieve consistent and superior returns for our shareholders.

OUR KEY PRIORITIES

are strong financial performance, international expansion and growth of high-return or high-P/E multiple businesses.

/ James T. Rager
Vice-Chairman
Personal &
Commercial Banking

/ Irving Weiser
Chairman & CEO
RBC Dain Rauscher

/ W. James Westlake
Chairman & CEO
RBC Insurance

/ Charles M. Winograd
Vice-Chairman
Corporate &
Investment Banking

/ Growth of high-return, high-P/E multiple businesses

A key priority is to grow high-return businesses that are less capital intensive and carry higher market multiples. Our focus is on consumer markets such as Personal & Commercial Banking and Wealth Management where we believe the long-term prospects remain strong, but each of our business segments is selecting areas for priority growth.

As we move into 2002 we will continue to focus on cross-platform leverage. We believe that there is a growing trend towards integration of financial services and that a key differentiator will be the ability of our organization to provide integrated product offerings that enhance service and increase value to our customers. We have made significant strides in capitalizing on the opportunities across our client base and will continue to focus on cross-platform leverage as a major priority. As an example, Personal & Commercial Banking and Wealth Management are working together to capitalize on the tremendous growth opportunities in the financial planning market.

Each of our five business segments is working to improve client relationships, product and channel offerings, cost competitiveness and overall performance, as detailed later in this report.

/ Shareholder returns

As shown on page 7, over the past five years we have provided a 19.4 per cent annualized total return to shareholders, above the returns of major indices in North America. In the difficult market environment of 2001, our total return to shareholders was flat, which was slightly better than a negative 1 per cent return for the TSE Banks and Trusts Index and well ahead of a negative 29 per cent return for the TSE 300.

We have a long history of uninterrupted dividend payments and in 2001 we raised our common share dividends twice, for a total increase of 21 per cent.

Our share price at the end of 2001 relative to book value and to earnings projected by analysts for 2002 was the highest among the six largest Canadian banks. We are aiming to build on this position through top-quartile financial performance and by continuing to actively pursue our strategic priorities.

I would like to acknowledge the legacy of my predecessor, John Cleghorn, who retired on August 1. John laid the foundation of our international expansion initiative, delivered excellent returns to our shareholders and left a tremendous management team in place that I have had the pleasure of working with throughout this year. We will continue to work hard over the course of the next few years to generate attractive returns to you, our shareholders.

/ Gordon M. Nixon
President & Chief Executive Officer
December 11, 2001

/ Performance compared to objectives

	/ 2001 objective	/ 2001 performance	/ 2002 objective (1)
1 Valuation Maintain top quartile valuation levels:			
• Share price/book value:	1st quartile of TSE Banks & Trusts Index	1st quartile	1st quartile of TSE Banks & Trusts Index
• Share price/earnings (2):	1st quartile of TSE Banks & Trusts Index	1st quartile	1st quartile of TSE Banks & Trusts Index
Share price growth:	Above the TSE Banks & Trusts Index	Above the index	Above the TSE Banks & Trusts Index
2 Cash earnings growth Grow cash diluted earnings per share by:	10–15%	13% 4%, excluding special items	5–10%
3 Cash return on common equity Achieve a cash return on common equity of:	18–20%	18.6% 17.1%, excluding special items	17–19%
4 Revenue growth Achieve revenue growth of:	Over 10%	22% 19%, excluding special items	7–10%
5 Expense growth Operating expenses compared to operating revenues (3):	Operating expense growth less than operating revenue growth	Operating expense growth of 23%, compared to operating revenue growth of 19%, reflecting recent acquisitions	Operating expense growth less than operating revenue growth
6 Portfolio quality Achieve a ratio of specific provisions for credit losses to average loans (including reverse repurchase agreements) and bankers' acceptances of:	.30–.40%	.53%	.45–.55%
7 Capital management Capital ratios:	Maintain strong capital ratios	8.7% Tier 1 capital ratio 11.8% Total capital ratio versus medium-term goals of 8% and 11–12%	Maintain strong capital ratios

(1) Excluding special items.
(2) Based on analysts' average diluted cash earnings per share estimates.
(3) Operating expenses exclude special items, costs of Stock Appreciation Rights and certain acquisition expenses such as retention compensation, while operating revenues exclude special items.

Medium-term (3–5 year) goals

	Medium-term goals (1)
Profitability	
Cash return on common equity	20%+
Cash earnings per share growth	15%+
Revenue growth	8–10%
Specific provisions for credit losses (2)	.30–.40%
Dividend payout ratio (3)	30–40%
Capital adequacy (Canadian GAAP)	
Tier 1 capital	8%
Total capital	11–12%

(1) Using U.S. GAAP, except capital ratios and specific provisions for credit losses ratio, which are under Canadian GAAP.
(2) As a percentage of average loans (including reverse repurchase agreements) and bankers' acceptances.
(3) Common dividends as a percentage of net income after preferred dividends.

/ Why invest in Royal Bank of Canada (RY)?

Royal Bank of Canada is listed on the TSE and NYSE under the symbol RY. Some of the most important reasons for investing in Royal Bank of Canada are provided below.

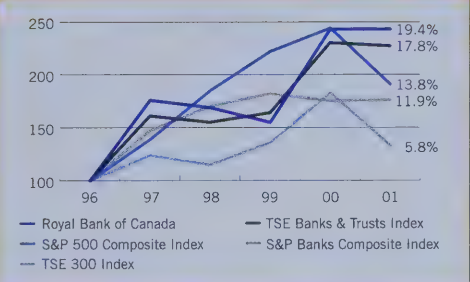
RECORD OF SHAREHOLDER VALUE CREATION

Our three key priorities – strong fundamentals (achieving top quartile financial performance among North American banks), international expansion and growth of high-return or high-P/E multiple businesses – are all intended to maximize long-term shareholder returns.

As shown in the chart below, our annualized total return to shareholders over the past five years was 19 per cent, well above returns of 6 per cent for the TSE 300 and 14 per cent for the S&P 500 in the same period. In the past year, our total return to shareholders was 0.3 per cent compared to -27 per cent for the TSE 300 and -22 per cent for the S&P 500. We have raised our common share dividends four times since the end of 1999, and our quarterly common share dividend of $0.36 in the fourth quarter of 2001 was 50 per cent higher than in the fourth quarter of 1999. We have a history of uninterrupted dividend payments and a target of 30–40 per cent for the dividend payout ratio (common share dividends as a percentage of net income after preferred share dividends).

Five-year annualized total return (1)

October 31, 1996–October 31, 2001
Long-term shareholder value creation



(1) In Canadian dollars, assuming dividends are reinvested.

BUSINESS DIVERSIFICATION

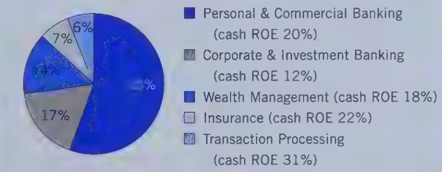
We have a well-diversified business mix, which stabilizes our returns and reduces earnings volatility. As shown in the pie chart to the above right, approximately half of our core cash earnings came from Personal & Commercial Banking operations, with Corporate & Investment Banking accounting for approximately a fifth of our core cash net income. Wealth Management's contribution fell to 14 per cent given the weak retail brokerage volumes affecting the industry, but its contribution has been as high as 21 per cent in the second quarter of 2000. Our goal is to eventually increase Wealth Management's contribution to approximately 25 per cent as we believe the long-term growth prospects of that business are strong and its returns are attractive.

Our sizeable Insurance operations and significant share of the custody market in Canada make us unique among Canadian banks. The custody business accounts for over half of our Transaction Processing segment's earnings. In aggregate, approximately 27 per cent of our cash earnings are derived from Insurance, Transaction Processing and Wealth Management, all of which have negligible credit risk and are not capital intensive. We plan to continue to grow this percentage.

Well-diversified business base

27% of cash earnings from relatively asset-quality immune businesses

CORE CASH NET INCOME CONTRIBUTION – 2001 (1)



(1) Excluding special items, detailed in Table 4 on page 20.

LEADERSHIP IN MOST BUSINESSES IN CANADA

We have leading positions in the transaction processing and insurance businesses among banks in Canada. In wealth management, we are number one in most products among Canadian banks (mutual funds, global private banking and full-service brokerage). In corporate and investment banking, we have been the top-ranked securities underwriter in Canada for the past 12 years and among the top M&A advisors in the country. In personal and commercial banking, our market positions and earnings are among the largest of the Canadian banks.

A STRONG SALES AND CROSS-SELLING CULTURE

We have a successful history of generating value for our clients in Canada by offering products based on individual needs assessments, having generated on average over $2.20 of new business for every dollar of business referred within the group between 1998 and 2001. This record will be very helpful to us in the U.S., where we can capitalize on our experience within the operations we have put together in that market.

A DISCIPLINED GROWTH STRATEGY

We have created a solid foundation in the U.S., encompassing full-service retail brokerage, personal and commercial banking, insurance and equity capital markets operations. See the complete discussion on pages 8 to 10.

Our future expansion will remain highly focused and disciplined, targeted to those markets and businesses that promise high growth and strong returns.

/ International expansion

/ Each RBC business has objectives to expand internationally, particularly in the United States. Our approach is to encourage every business segment to grow internationally as long as the expansion meets our financial thresholds and is aligned strategically. We have strong market positions and exportable strengths in each Canadian business. As a result, it is important that all segments look beyond Canada for growth. In addition, many of our clients are expanding in the United States and seeking service capability in that market.

With global players operating in Canada and the financial borders fading, North American capabilities and presence are essential to competing over the longer term in many of our businesses and helping us build enduring client relationships. We believe that diversification of earnings can contribute to consistent shareholder value creation by reducing exposure to any one sector.

Accordingly, over the past several years, we have carefully analyzed the U.S. market and expanded by acquiring businesses that we know well and where we feel we have a competitive advantage – largely full-service brokerage, personal and commercial banking, and insurance. We have purchased companies that represented a good strategic fit, were manageable in size, generated healthy returns and had strong management who shared our culture, operating philosophy and profitable growth aspirations.

/ Primarily U.S.-focused acquisitions

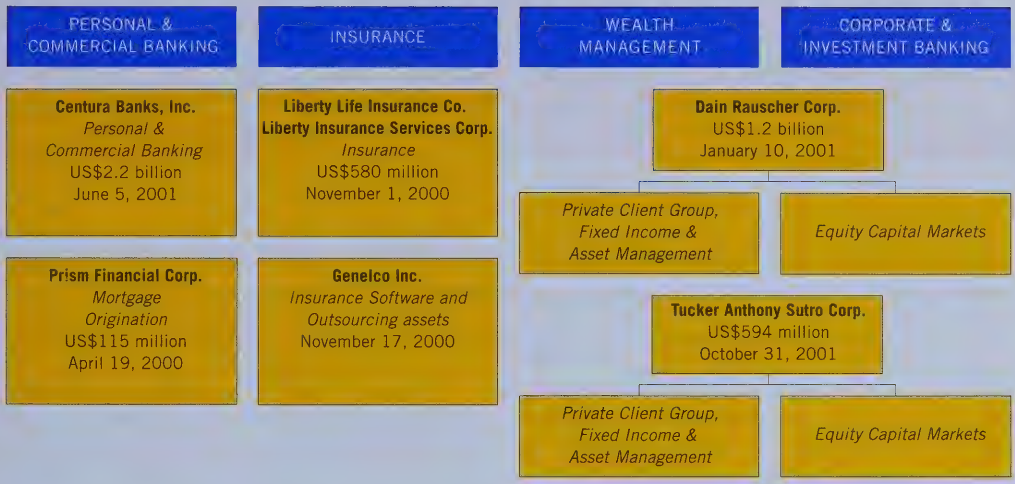
We have made several acquisitions in the U.S. in four business segments since the spring of 2000.

In April 2000, we purchased Chicago-based mortgage originator Prism Financial Corporation, which had an excellent year in 2001 with interest rates declining. Prism Financial bought a builder finance business later in 2000, which has continued to grow, and opened four new locations in 2001, including one in the Washington, D.C. metro area. RBC Prism Mortgage has 235 offices in 30 states, while RBC Builder Finance has 12 offices in 10 states. Our purchase of Rocky Mount, North Carolina–based Centura Banks, Inc., in June 2001 represented a much larger foray into the U.S. personal and commercial banking market. RBC Centura has 239 branches in three states, along with US$14 billion in assets.

In November 2000, we acquired Greenville, South Carolina–headquartered Liberty Life Insurance Company and Liberty Insurance Services Corporation, which subsequently bought certain insurance software and outsourcing assets from Genelco Incorporated of St. Louis, Missouri. RBC Liberty Insurance gives us a stable earnings base with revenue spread across agency sales, direct business, administrative services and software. RBC Liberty Insurance's agency sales force is located in 38 offices in six states.

Building a U.S. platform

Recent U.S. acquisitions



Minneapolis-based Dain Rauscher Corporation, acquired in January 2001, gave us 1,100 brokers in 85 offices largely across the Midwest and an expanded equity capital markets capability through Dain Rauscher Wessels (DRW). With the purchase of Boston-based Tucker Anthony Sutro Corporation in October 2001, we are the ninth-largest U.S. retail brokerage firm with over 2,000 brokers and over 160 offices. In total, our RBC Investments division has over 3,500 brokers in North America. Tucker Anthony Sutro, with its presence mostly on the east and west coasts, complements RBC Dain Rauscher's largely midwestern presence and, with its proximity to RBC Centura, makes it easier to expand the retail brokerage business organically in the southeastern U.S.

These U.S. acquisitions have given us more than two million additional clients in 18 months: 700,000 clients at RBC Centura, over 700,000 households at RBC Liberty Insurance, and 500,000 and 300,000 accounts, respectively, at RBC Dain Rauscher and Tucker Anthony Sutro. This compares with the client base of more than 10 million built up in Canada over a century and demonstrates the substantial size and potential of the U.S. market. Our focus will be on ensuring we generate the operating results expected from these acquisitions.

/ Entered Phase II of U.S. expansion

With the acquisition of Tucker Anthony Sutro and certain assets of Genelco, we entered the second phase of our U.S. expansion. The first phase represented putting together the original building blocks – an initial step in each of the businesses we wanted to extend into the U.S. The second phase represents adding to these original blocks to build scale and achieve cost synergies.

Security First Network Bank as well as certain functions of RBC Prism Mortgage have been integrated into RBC Centura. This is expected to result in cost savings. Similarly, we can look forward to substantial cost savings when Tucker Anthony Sutro is merged with RBC Dain Rauscher. The expected amount and timing of these savings are discussed on pages 37 to 38.

/ Short-term focus on returns

We will continue to look for disciplined add-on acquisitions with good strategic fit and value (largely in personal and commercial banking in the southeastern U.S.) but our greatest short-term priority for the U.S. is to maximize returns by enhancing operating efficiencies and leveraging each segment for revenue growth. To do so, we are looking at opportunities two ways. On a north-south basis each segment is looking at all of its North American operations to determine how to maximize its cost effectiveness and revenue potential. On an east-west basis we are reviewing opportunities in the U.S. for eliminating duplication and building revenue growth by exporting our cross-selling experience from Canada. In the near term, we will be consolidating our recent acquisitions and ensuring we meet operating targets. The returns should improve over time as the retention compensation payouts and other upfront costs associated with the wealth management purchases start to decline. Three of our key acquisitions, RBC Prism Mortgage, RBC Liberty Insurance and RBC Centura, were already accretive to cash earnings by the third quarter of 2001.

/ Execution of U.S. expansion strategy

We are often asked why we have not concentrated our investments in one business or geography in the U.S., and there are several reasons for that. We believe one of our strengths is our domestic leadership in each of our segments, and that to maintain and foster that growth we must not restrict our businesses from expanding and capitalizing on their strengths. If one is not prepared to grow a business, then it should probably be sold. We are a diversified financial services company and we see value in remaining diversified as we grow beyond our borders.

In addition, we believe that the U.S. and, indeed, North American market will continue the trend towards integrated financial services. It is important that we establish foundations, particularly in our core consumer sectors, to build on as we capitalize on this trend. We have imposed

/ New branding

In August, Royal Bank of Canada unveiled a new brand name, RBC Financial Group, to replace Royal Bank Financial Group, and an updated brand featuring a modernized Leo. As well, the RBC prefix has now been attached to each of our U.S. platform brands, providing a cohesive umbrella that will allow clients to recognize each of these companies as part of the RBC group. At the same time, by retaining the original company name, we are capitalizing on the strong brand equity and franchise value built over time by each of these firms in their local markets.

financial disciplines on our segments' investments and have not yet found ourselves constrained by either financial or human capital.

We believe that there is room for a range of participants to operate successfully in the U.S. market and we are committed to our targeted strategy. In the long term, we may have to make choices with respect to the businesses we emphasize and our current balance provides us with flexibility to capitalize on opportunities and industry shifts.

/ Expansion outside North America

Outside North America our growth is highly focused and selective. In July 2001, we completed the acquisition of Perpetual Fund Services, the custody, investment administration and unit registry business of Australian publicly listed company Perpetual Trustees Australia Limited. This purchase positions us well to expand our securities service offering in Australia and throughout the Asia-Pacific region.

RBC Capital Markets' Global Equity Derivatives (GED) business continued to expand outside of North America in 2001, principally in London, England, delivering to clients around the world a growing array of structured equity products such as international equity-linked structured notes and the highly successful clone funds. GED has also established itself as a pre-eminent player in the alternative asset management business globally, overseeing close to $4 billion in assets.

Following the acquisition of Ernst & Young Trust Company (Jersey) Limited in the Channel Islands in 2000, Global Private Banking (GPB) successfully completed the integration of this business with negligible attrition of clients and employees. GPB has aspirations for further growth in Europe.

/ Expansion priorities by business segment

PERSONAL & COMMERCIAL BANKING

In the U.S., the objectives are to seek efficiency improvements and to accelerate revenue and earnings growth. In personal banking, this will be achieved through better client relationship management, the introduction of new products, improved sales effectiveness and cross-selling. In commercial markets we expect to enhance small business product offerings and develop segmentation capabilities in strategic areas. We continue to look at acquisition opportunities, particularly in the fast-growing southeastern U.S.

INSURANCE

In the U.S., RBC Liberty Insurance is developing linkages with RBC Centura and we believe we can grow this business in a complementary fashion with our other U.S. operations.

WEALTH MANAGEMENT

The combination of RBC Dain Rauscher and Tucker Anthony Sutro has the size and reach that achieves Wealth Management's short-term objectives for the U.S. Integrating Tucker Anthony Sutro and reorienting the combined organization for existing market conditions to enhance returns is our primary objective. We will also look to expand Tucker Anthony Sutro's share of market, particularly in Boston, New York, San Francisco and Los Angeles where we believe there is tremendous opportunity. We also plan to expand organically in RBC Centura's markets. Outside North America, we will continue to build our global private banking franchise.

CORPORATE & INVESTMENT BANKING

While we will continue to offer superior service and value to our Canadian clients, we are also attentive to the U.S., where the purchase of Dain Rauscher Wessels (DRW), has given us valuable client relationships, research, and equity sales and trading capabilities. DRW, combined with our existing U.S. capital markets capability, provides us with a strong North American business that enhances our ability to service existing clients and grow in a focused manner in the U.S. Together, our Canadian and U.S. capital market businesses, branded as RBC Capital Markets, will run as a globally focused operation with a strong North American base and will capitalize on the less intensively covered mid-market in the U.S. Outside North America, we will continue to focus on niche businesses where we have competitive global franchises – expanding fixed income, credit derivatives, foreign exchange, equity derivatives and structured finance.

TRANSACTION PROCESSING

The objectives for Transaction Processing are to leverage client relationships and our leadership position in Canada to develop new business both within and outside Canada. In addition, we will pursue alliances, acquisitions and partnerships while leveraging the acquisition of Perpetual Fund Services in Australia to build new products, and enhance processing and systems segments to improve efficiencies and economies of scale. This is a service business in which we have proven our ability to compete in Canada and internationally.

/ Growth of our businesses

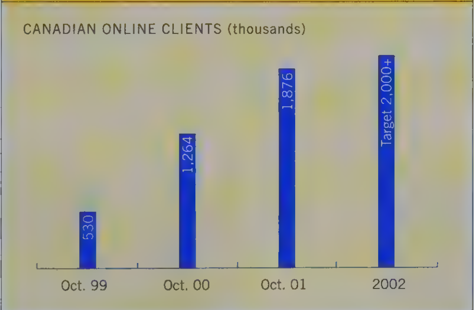
/ Each of our five business segments launched a number of initiatives in 2001 to enhance products and service for clients and grow revenues and earnings. These were in addition to the international expansion efforts described on pages 8 to 10.

/ Personal & Commercial Banking

- In December 2000, launched Moneris Solutions, a 50/50 joint venture with Bank of Montreal, to offer North American merchants simplified transaction processing for Visa, MasterCard and debit card purchases. In less than a year, Moneris has become Canada's largest and one of North America's largest payment processing companies, serving more than 300,000 clients.
- Signed agreement with Canadian software designer Basis 100 in June to provide mobile mortgage application software to RBC Royal Bank's mobile mortgage specialists. This software provides instant mortgage approval, resulting in both speed of delivery and operational efficiencies.
- As of October 31, our online banking and trading services enrollment of individual and business clients reached 1.9 million, a 50 per cent increase over October 31, 2000, and a 250 per cent increase since October 31, 1999. Our online capabilities were recognized by a number of external sources in 2001, including Cambridge, Mass.–based Forrester Research Inc., which in May rated our online marketing capability best among North American banks.

Canadian online client growth continues

- *1,876,000 clients at October 31, 2001 (1,535,000 banking and 341,000 brokerage)*
- *18.8% Canadian client penetration*



/ Insurance

- Completed the consolidation of most of the Canadian insurance operations at a single location in the new Meadowvale Business Complex in Mississauga, Ont., in November 2000, creating cost savings and benefits for employees, clients and shareholders.
- Enhanced the Insurance Web site in February, introducing new claims-related information, a career section, an opinion poll, life and travel insurance quizzes and a life insurance calculator. The site also moved to the new URL, *rbcinsurance.com*.
- Launched a new application in June, allowing Canadian clients to obtain personal accident insurance coverage over the Internet. The offer provides $1,000 or $2,000 of complimentary coverage (the latter includes $1,000 each for the client and their spouse). Additional coverage is also available online.
- In October, began offering Canadians online access to competitive home and auto insurance quotes. Earlier, in January, auto quotes became available on *kanetix.com*, an online insurance quote comparison service.
- In July, formed multi-year alliances with the Association of Canadian Travel Agents (ACTA), the national trade association for Canada's travel agencies, and the Canadian Institute of Travel Counsellors (CITC), a non-profit organization that provides educational programs to travel agents. Under the agreements, ACTA gave its "Seal of Approval" to our consumer travel insurance, and CITC recognized us as its exclusive travel insurance partner.
- Introduced a new critical illness insurance product for the Canadian market in July. This insurance, which pays out a lump sum benefit for specified critical illnesses, expands and enhances the existing product portfolio.

/ Wealth Management

- During 2001, divested businesses unrelated to retail investors. In January, the Group Retirement Services division was sold to Waterloo, Ont.–based Clarica Life Insurance Company for a pre-tax gain of $43 million, and, in August, RT Capital Management's institutional pension fund management business was sold to UBS Asset Management for a pre-tax gain of $313 million.
- Announced in December 2000 that Action Direct, the Canadian direct brokerage service, was removing the suitability review from client orders after satisfying regulatory requirements. The removal, a response to the growing number of self-directed trades being executed by Canadian investors, resulted in Action Direct processing equity trades faster than most of its competitors, according to Internet rating agency Gómez, Inc.
- In May, RBC Dain Rauscher's clearing unit, Dain Correspondent Services, offered its correspondent brokers tools and technology to help them both better serve their U.S. clients and manage their business. The broker workstation features Internet access to back-office functions, online research from three of the largest sources and client access to account information.
- Launched a Web site in May for expatriate clients. Whether clients are going on their first assignment abroad, or have spent most of their careers on foreign soil, *rbcprivatebanking.com* provides them with the necessary information to manage their personal finances while away from home.
- Introduced 16 load mutual funds under the name RBC Advisor Funds in October, expanding on the existing no-load mutual fund family. The RBC Advisor Funds offer a more attractive compensation model for investment advisors and a tax-advantaged corporate structure.

/ Corporate & Investment Banking

- Established as a strong player in the alternative asset management business globally in 2001, overseeing close to $4 billion in assets worldwide.
- Experienced significant growth in the client base and transaction volumes over 2000 of our proprietary Web-based foreign exchange trading program, FX Direct. The foreign exchange group is now a liquidity provider to a half-dozen multi-bank distribution segments. Following the alliance with the foreign exchange Internet portal FXall in 2000, we entered a similar arrangement in 2001 with Atriax, positioning us to participate in the migration of an increasing amount of client business to electronic dealing. Also in 2001, industry trade journal *FX Week* confirmed our ranking in the top 10 global foreign exchange banks according to reported revenues.
- Effective November 1, 2001, restructured Corporate & Investment Banking to better position the business for future North American growth. The corporate finance, M&A, equity research and equity trading capabilities of DRW and the Global Banking and Global Equity divisions are merged into one division – Capital Markets Services – marrying the interests of both issuing and investing clients. Global Financial Products joins credit and trading markets with what can be defined as the firm's medium-term trading liabilities. It includes fixed income trading & syndication, financial structuring, derivatives and proprietary trading for both equity and debt. Global Treasury Services combines foreign exchange and money markets, the most liquid trading and distribution businesses, and Global Credit brings a market orientation to the corporate loan book by focusing on portfolio and transaction management and the relative value of credit instruments. RBC Dominion Securities and DRW will run as a single North American operation branded as RBC Capital Markets.

NEW RBC.COM URL

Our online masterbrand is now *rbc.com*, supporting our brand initiative. *Royalbank.com* continues to be the Web address for Personal & Commercial Banking.

CORPORATE RESPONSIBILITY

For the sixth consecutive year we are at the top of *The Globe and Mail*'s list of "Canada's Most Respected Corporations" for "social responsibility."

NORTH AMERICAN PLAYER

At October 31, 2001, we were North America's seventh-largest bank as ranked by assets and eleventh-largest as ranked by market capitalization.

/ Throughout Royal Bank of Canada, we share a set of values that provides a solid foundation for our growth into new businesses and markets. Our core values are excellent service to clients and each other, working together to succeed, personal responsibility for high performance, diversity for growth and innovation, and trust through integrity in everything we do.

/ Transaction Processing

- In April, won an exclusive outsourcing agreement to provide fund accounting and custody services to Toronto-based CI Mutual Funds Inc.'s $23 billion portfolio of funds as well as the mandate to provide correspondent banking services to Citibank Canada.
- Continued to expand in Europe in 2001, with our custody arm successfully attaining over $75 billion in new business, including a $50 billion global custody mandate for Sigma Finance Corporation. And in June, we were appointed principal Canadian clearing bank for the worldwide operations of Nordea Group, the largest financial services group in the Nordic region.
- Our ViewFinder custody eBusiness segment was honoured at the prestigious *CIO Canada*'s ITX Awards in April for innovative use of the Internet to create business value for clients.
- Performed strongly in key international client satisfaction surveys released in 2001. Recognized as best overall Canadian subcustodian in *Global Custodian* magazine's annual Agent Bank Review. R&M Consultants' Global Custody Survey rated us number three in the world, as did the annual *Global Investor* Global Custody Survey. Also, *ICFA* magazine "Highly Commended" us for the quality of our global custody client relationship management.
- In April, for the third consecutive year, ranked as top cash management bank in Canada for service performance in Stewart Associates' 2001 *Survey of Bank Fees*. Also placed as market share leader in the biannual Brendan Wood International Corporate Electronic Banking Study in November and December 2000, with 27 per cent and 23 per cent of lead relationships with both large corporate and mid-market clients, respectively.
- The new global foreign exchange settlement system, Continuous Linked Settlement, is scheduled to begin operations in 2002. We established ourself as the market leader of Canadian nostro services, securing 20 of 38 mandates awarded in Canada in 2001.

/ RBC

- In April, became the first Canadian financial institution to invest in a vertical electronic marketplace with Montreal-based Mediagrif Interactive Technologies Inc. Targeted at the automotive industry, the NET3F marketplace presents a simple and fast solution for purchasers and vendors of automotive parts.
- In October, announced the consolidation of financial planning businesses to create one highly trained sales force. The November 1, 2001, launch brought together 1,500 salespeople from within Wealth Management and Personal & Commercial Banking. This is the first step in addressing the unique and fast-growing financial planning market.
- In October, named most respected financial institution and second of all companies in *The Globe and Mail*'s *Report on Business* annual list of "Canada's Most Respected Corporations." We topped all of the ranked companies in the category of "financial performance" and were second in "long-term investment value" and "human resources management."
- Named Canada's best bank in *Global Finance* magazine's annual World's Best Banks awards in October.
- In October, received the prestigious CIO Choice Award for excellence in technology from Gartner, Inc., the world's leading technology consulting company. In November 2000, Gartner ranked Royal Bank of Canada the best in class organization in North America for efficiency in managing and operating its enterprise infrastructure.
- Royal Bank of Canada's Board of Directors was recognized as the best in Canada by *Canadian Business* magazine in its first annual ranking in October. We were the only company to score 100 per cent in accountability, and also received high marks for independence.

/ Brand launch at Royal Bank Plaza, Toronto

/ Frequently asked questions

/ During 2001, we were frequently asked the following questions by shareholders and analysts. Here are the answers we provided.

/ Acquisition strategy

What will your acquisition strategy be in the near term, in light of the uncertain economic environment and the number of key acquisitions you closed during the past year?

We are not expecting to make any significant purchases in the short term. Instead, our focus is on integrating our recent acquisitions, realizing cost synergies from them and ensuring that we meet our operating targets. However, we continue to look for disciplined and strategic add-on acquisitions, primarily in personal and commercial banking in the southeastern U.S., so we can extend the RBC Centura franchise. (For more information see the international expansion section on pages 8 to 10.)

/ Consolidation in Canada

With the passage of the *Financial Consumer Agency of Canada Act* in June 2001, will you be pursuing a bank merger in Canada again?

We have always stated that we would like to participate in consolidation in Canada should it ultimately occur, and that we will keep our options open. We think that it is important to be a strong and successful player in our home market and to build scale, and we will take advantage of opportunities that complement our growth strategies. However, we do not foresee consolidation occurring in the immediate future nor until the financial services industry and the government are aligned in their views about the future of the industry in Canada.

Each of the Canadian banks has an international presence, albeit with a differing strategic focus, and combinations of Canadian banks will result not only in more efficient Canadian operations, but also in a more meaningful immediate presence beyond our borders.

/ Changes in credit practices since last recession

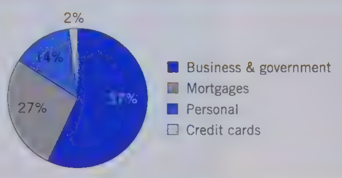
Have your credit practices changed since the recession of the early 1990s?

We have amended a number of practices over the past several years, resulting in a better and more diversified loan portfolio. We have reduced our combined exposure to Latin America and emerging Asia (Asia, excluding Japan) to 0.8 per cent of total assets from 4 per cent in 1990. At the same time, we have reduced our exposure as a percentage of common equity to any single company or industry, resulting in a much more diversified loan portfolio. Along with this diversification, we have increased the quality of our corporate loan portfolio, which now has a strong investment grade focus with a majority of all corporate loans having a rating equivalent to BBB or higher. Another dramatic change has been in the area of our loan portfolio mix. As shown in the pie charts below, business and government loans have dropped from 57 per cent of total loans in 1991 to 43 per cent.

We have also taken advantage of changes in the marketplace to enhance our portfolio management. For instance, we place a greater emphasis on loan syndications, loan trading and the use of credit derivatives to reduce exposures and risks. (For information on our current risk management procedures see pages 50 to 55.)

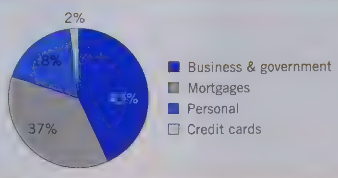
Loan portfolio mix at October 31, 1991

Loan portfolio mix has changed, with business and government loans dropping from 57%...



Loan portfolio mix at October 31, 2001

...to 43% of total loans at the end of 2001.



/ September 11, 2001

How did the events of September 11 affect your operations?

We have approximately 10,000 employees in the U.S., of which 500 were working out of One Liberty Plaza in downtown Manhattan, primarily for our Corporate & Investment Banking segment, when the tragedy occurred. Thankfully, all of our employees were evacuated before the World Trade Center towers collapsed and all were accounted for. Our business resumption plan established operations at a location outside Manhattan within hours and we developed additional short-term and long-term contingency plans to ensure that all essential elements of our business were maintained. Our Year 2000 planning efforts undertaken in the late 1990s proved invaluable during this crisis. Furthermore, the co-operation within the financial services industry and the co-ordination between central banks and regulators at this very difficult time was instrumental to our business resumption activity.

While the direct impact of these events on our performance during the week of September 11 was not material, the subsequent fallout has affected many of our businesses as they adjust to a different economic environment than earlier forecast. Capital market businesses have already slowed and the conditions of many companies and industries that were already experiencing difficulties are worsening and causing them to restructure. In addition, financial insecurity has led to further deterioration of consumer confidence.

In this uncertain and difficult economic environment our objective has been to adjust our businesses to ensure we perform in tough markets.

/ Economic outlook

What is your economic outlook for North America in 2002?

Economic forecasting is a challenge at the best of times and today's environment is far from the best of times. As a result of the catalytic nature of the terrorist acts on September 11, gross domestic product (GDP) growth forecasts have been lowered across the globe. This is particularly true for the American and Canadian economies, where recession-like conditions have taken hold. However, while very little can be said with great confidence, there are some factors that give us hope that 2002 will prove to be a great deal better than 2001.

- Central banks have cut interest rates aggressively with probable additional cuts still in the pipeline. At the time of this writing in early December 2001 the U.S. Federal Reserve had cut rates by 450 basis points already, and with more possibly to come. The Bank of Canada had cut its rates by 350 basis points and additional cuts totalling 50 basis points seem likely. As a result, borrowing costs have moved significantly lower for consumers and businesses. Interest rates – either nominal or after adjusting for inflation – have moved to generational lows, providing powerful support to the economy for the period ahead.
- Governments have room to support growth, a luxury not afforded in earlier episodes of economic weakness when governments were handcuffed by large and growing deficits. The largest fiscal thrust appears to be coming out of the U.S., where a number of initiatives suggest that a lift to the economy in the order of 1.4 per cent is likely in 2002. While other countries, including Canada, have less fiscal room, they are still in a position to support growth prospects, suggesting that smaller surpluses or modest deficits can be expected.
- Energy prices have moved lower, acting in the same manner as a tax cut by leaving more money in the pockets of consumers and on the books of businesses.

Given the unprecedented nature of recent events, uncertainty is high as are the downside risks, so caution is warranted. While we continue to look for stronger growth moving through next year, the biggest risk is confidence – consumer, business and investor. Early indications are that confidence has already taken a hit. How low it falls and how long it stays low will determine the accuracy of our forecast for a rebound in activity in 2002. While we remain well aware of the risks, we anticipate that Canadian growth will recover to 1.6 per cent in calendar-year 2002 (little growth in the first half, followed by growth in the second half) after averaging an expected 1.4 per cent in 2001. Growth in the U.S. may reach 1.4 per cent, up from an expected 1.1 per cent in 2001.

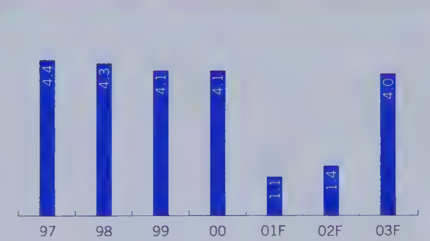
Canadian economic growth forecast to rebound

% change in Canadian real GDP (annual average)

F = Forecast in early December 2001

U.S. stimulus forecast to take effect in 2002

% change in United States real GDP (annual average)



F = Forecast in early December 2001

/ Serving our stakeholders

/ Leo fundraiser

/ Toque Tuesday

/ Promoting diversity

/ Building relationships

In every marketplace we serve, RBC aspires to be known as an organization that builds enduring relationships with, and delivers value for, its clients, shareholders, employees and communities. Each of these stakeholder groups is important to our future. We take seriously our responsibility to offer our clients top-quality products and service, generate superior long-term returns for our shareholders, provide challenging career opportunities for our employees and extend our resources to improve the quality of life in local communities.

/ Our clients

Our focus is on building enduring relationships with our clients to help them meet their financial goals, providing friendly, caring, seamless service and excellent value through every channel, product or service. We use client information management, surveys and focus groups to deepen and build relationships while preserving client privacy. We were the first bank, and second company, in Canada to appoint a corporate privacy officer to oversee the development and application of client privacy practices and policies throughout RBC's businesses.

Prompt, efficient attention to complaints is integral to our client care commitment. For concerns not resolved through our established complaint management process, the Ombudsman provides an impartial appeal avenue. Further information is available at branches, online at *rbc.com/ombudsman* or through the office at: P.O. Box 1, Royal Bank Plaza, Toronto, Ontario, Canada, M5J 2J5. Tel: 1-800 ROYAL-42 or 416-974-4591. Fax: 416-974-6922. E-mail: *ombudsman@rbc.com*.

/ Our shareholders

We are focused on maximizing long-term shareholder value through strong financial performance and returns, disciplined and profitable international expansion, and growth of high-return or high-P/E multiple businesses. We also use Economic Profit as a measure of business performance. In the past five years shareholders have benefited from a 19 per cent compound annual total shareholder return compared to 6 per cent for the TSE 300. This past year, in a difficult economic environment, we continued to retain the highest share price relative to book value and relative to 2002 earnings as projected by analysts among all Canadian banks. We aim to maintain this valuation leadership.

/ Our employees

Strong relationships with our employees are vital to our future success. We value service, teamwork, personal responsibility, diversity and integrity as critical to the way we do business. Each employee plays an important role in advancing our reputation and is required to be fully familiar with our Code of Conduct. We are focused on providing leading-edge workplace practices, opportunities for continuous learning, and challenging and satisfying careers to our employees. We offer comprehensive compensation programs to reward employees for their contribution. We strive to create a culture of ownership, and approximately 82 per cent of employees own our shares through our Employee Savings and Share Ownership Plan.

/ Our community

For the sixth consecutive year, we were named top corporation in Canada for "corporate social responsibility" by *The Globe and Mail's Report on Business*. We support community-building initiatives worldwide – such as funding after-school programs, economic development programs and health care projects – and our donations this year totalled more than $34 million. Another $18 million sponsored amateur athletics, the arts and community events in Canada. In 2001, the International Year of Volunteers, we celebrated the role our employees around the world play in sharing their skills, knowledge and compassion to enhance the well-being of their communities. For more information, visit us at *rbc.com/community*.

/ Financial review U.S. GAAP

Caution regarding forward-looking statements

Royal Bank of Canada, from time to time, makes written and oral forward-looking statements, included in this Annual Report, in other filings with Canadian regulators or the U.S. Securities and Exchange Commission, in reports to shareholders and in other communications, which are made pursuant to the "safe harbor" provisions of the United States *Private Securities Litigation Reform Act of 1995*. These forward-looking statements include, among others, statements with respect to the bank's objectives for 2002, and the medium and long terms, and strategies to achieve those objectives, as well as statements with respect to the bank's beliefs, plans, expectations, anticipations, estimates and intentions. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "anticipate," "estimate," "expect," "intend," "plan," and words and expressions of similar import are intended to identify forward-looking statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that predictions, forecasts, projections and other forward-looking statements will not be achieved. The bank cautions readers not to place undue reliance on these statements as a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to, the strength of the Canadian economy in general and the strength of the local economies within Canada in which the bank conducts operations; the strength of the United States economy and the economies of other nations in which the bank conducts significant operations; the effects of changes in monetary and fiscal policy, including changes in interest rate policies of the Bank of Canada and the Board of Governors of the Federal Reserve System in the United States; changes in trade policy; the effects of competition in the markets in which the bank operates; inflation; capital market and currency market fluctuations; the timely development and introduction of new products and services by the bank in receptive markets; the impact of changes in the laws and regulations regulating financial services (including banking, insurance and securities); changes in tax laws; technological changes; the ability of the bank to complete strategic acquisitions and to integrate acquisitions; unexpected judicial or regulatory proceedings; unexpected changes in consumer spending and saving habits; and the bank's anticipation of and success in managing the risks implicated by the foregoing.

The bank cautions that the foregoing list of important factors is not exhaustive. When relying on forward-looking statements to make decisions with respect to the bank, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. The bank does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the bank.

Management evaluates the bank's performance on a reported basis in accordance with United States generally accepted accounting principles (U.S. GAAP). Management also evaluates the bank's performance on a core, a cash and a core cash basis.

Items presented on a core basis exclude special items that are viewed by management as items that do not arise as part of normal day-to-day business operations or that are unusual in nature and that could potentially distort the analysis of trends. The special items for 2001 are shown in Table 4 on page 20. The special items total $204 million and include gains on dispositions, a U.S. retail banking restructuring charge, income tax related to these items, and a tax expense resulting from the enactment of a reduction in tax rates. There were no special items for 2000.

Items presented on a cash basis are calculated by adding back to reported net income the after-tax amount of amortization of goodwill and other intangibles. The amortization of goodwill reduced reported diluted earnings per share (EPS) by $.39 in 2001 ($.13 in 2000), while the amortization of intangibles reduced reported diluted earnings per share by $.06 ($.02 in 2000). On November 1, 2001, the bank adopted the new accounting standards for business combinations, whereby goodwill is no longer amortized although other intangibles continue to be amortized.

Items presented on a core cash basis exclude special items and are calculated by adding back to reported net income the after-tax amount of amortization of goodwill and other intangibles.

The bank's fiscal year-end is October 31. All dollar amounts in management's discussion and analysis are in Canadian dollars unless otherwise specified.

Overview

Net income

(C$ millions, except percentage amounts)	% change	2001	2000
Reported net income (1)	10%	$ 2,435	$ 2,208
Impact of special items (2)		(204)	–
Core net income	1%	$ 2,231	$ 2,208
Reported net income (1)	10%	$ 2,435	$ 2,208
Amortization of goodwill and other intangibles (after-tax)	225%	286	88
Cash net income	19%	2,721	2,296
Impact of special items (2)		(204)	–
Core cash net income	10%	$ 2,517	$ 2,296

(1) As reported on the consolidated statement of income.
(2) Special items are shown in Table 4 on page 20.

Diluted earnings per share (EPS)

(C$, except percentage amounts)	% change	2001	2000
Reported EPS (1)	4%	$ 3.55	$ 3.40
Impact of special items (2)		(.32)	–
Core EPS	(5)%	$ 3.24	$ 3.40
Reported EPS (1)	4%	$ 3.55	$ 3.40
Amortization of goodwill and other intangibles (after-tax)	200%	.45	.15
Cash EPS	13%	4.00	3.55
Impact of special items (2)		(.32)	–
Core cash EPS	4%	$ 3.68	$ 3.55

(1) As reported on the consolidated statement of income.
(2) Special items are shown in Table 4 on page 20.

As shown in the tables above, reported net income in 2001 was up 10% from 2000 (4% on a per share basis). Excluding the special items, core net income was up 1% (down 5% per share). The bank issued 83 million common shares in 2001 (72 million net of common share repurchases), most of which were in connection with the acquisition of Centura Banks, Inc., in June 2001, resulting in lower or negative growth rates for earnings per share as compared to net income.

The analysis and discussion that follows on pages 19 to 55 contains comparisons to 2000 that are generally based on the 2001 core numbers (i.e., excluding special items) and where indicated, on core cash earnings. The consolidated financial statements on pages 57 to 84 are reported in accordance with U.S. GAAP.

As shown in Table 1 below, international revenues were $4.2 billion or 28% of total revenues, up from $1.9 billion or 16% in 2000. The U.S. acquisitions resulted in U.S. revenues increasing to $2.9 billion or 20% of total revenues, from $.8 billion or 7% in 2000.

TABLE 1 **Earnings by geographic segment**

	2001			2000		
(C$ millions, taxable equivalent basis)	Canada	International (1)	Total	Canada	International (1)	Total
Net interest income	$ 5,324	$ 1,205	$ 6,529	$ 4,796	$ 511	$ 5,307
Non-interest revenue	5,210	2,945	8,155	5,277	1,403	6,680
Gross revenues	10,534	4,150	14,684	10,073	1,914	11,987
Provision for credit losses	757	362	1,119	703	(12)	691
Non-interest expenses	6,355	3,286	9,641	6,470	1,158	7,628
Income taxes (2)	1,450	39	1,489	1,354	106	1,460
Net income	$ 1,972	$ 463	$ 2,435	$ 1,546	$ 662	$ 2,208
Core net income (3)	$ 1,711	$ 520	$ 2,231	$ 1,546	$ 662	$ 2,208
Cash net income (4)	$ 2,087	$ 634	$ 2,721	$ 1,620	$ 676	$ 2,296
Core cash net income (5)	$ 1,826	$ 691	$ 2,517	$ 1,620	$ 676	$ 2,296

(1) Includes United States gross revenues of $2,882 million (2000 – $832 million).
(2) Includes non-controlling interest and taxable equivalent adjustment.
(3) Excludes special items in 2001, which are described in Table 4 on page 20. There were no special items in 2000.
(4) Cash net income is computed by adding back to net income the after-tax amount of amortization of goodwill and other intangibles.
(5) Core cash net income is cash net income excluding special items in 2001, which are described in Table 4 on page 20. There were no special items in 2000.

Outlook

Given the expectations of continued economic weakness in the first half of calendar 2002, the bank is targeting growth in core cash diluted earnings per share of 5–10% and a core cash return on common equity of 17–19% in fiscal 2002.

Financial priorities

Revenue growth and diversification

In 2001, core (operating) revenues increased 19%, substantially higher than the bank's objective of growth over 10%, primarily reflecting acquisitions. Excluding acquisitions, operating revenues were up 3%. Detailed discussion follows on pages 32 to 35.

Cost control

Core non-interest expenses increased 25%, reflecting acquisitions, costs of Stock Appreciation Rights and certain significant expenses. Excluding these, core non-interest expenses were down 2%. A full description is provided on pages 36 to 38.

Balance sheet and capital management

There was significant capital activity undertaken this year, partially reflecting acquisitions. At October 31, 2001, the Tier 1 capital ratio was 8.7%, up from 8.6% a year ago, while the Total capital ratio was 11.8%, down from 12% (all based on Canadian GAAP financial information). Both ratios met the bank's medium-term (3–5 year) capital ratio goals of 8% for Tier 1 capital and 11–12% for Total capital. More details are provided on pages 39 to 42.

Strong credit quality

Deterioration in the U.S. telecommunication sector contributed to higher provisions for credit losses and nonaccrual loans this year. The allocated specific provision for credit losses ratio was .52% in 2001 compared to .31% in 2000, while the nonaccrual loans ratio was 1.36% versus 1.00% in 2000. During the year, net charge-offs were .55% of average loans compared to .42% in 2000. Detailed discussion and tables are provided on pages 43 to 49.

Economic Profit

The bank measures the Economic Profit of its businesses, in addition to using a variety of other traditional measures, such as return on common equity and growth in earnings. Economic Profit measures each business segment's cash operating earnings after providing for the cost of capital committed to the segment.

Cash operating earnings is net income available to common shareholders excluding the after-tax impact of special items and amortization of goodwill and other intangibles. The equity capital charge is derived by applying the cost of common equity, which is management's proxy for the after-tax return required by shareholders for the use of their capital, to the amount of average common equity. The estimated cost of common equity is calculated based on the Capital Asset Pricing Model (CAPM). As such, the bank's cost of common equity changes as the factors of this model change, namely the risk-free rate, the bank's beta and the market risk premium. Furthermore, the estimated cost of equity is reviewed annually. Based on the decline in longer-term bond yields since the last review, the cost of common equity was reset mid-year to 12.5%. The average cost of common equity in 2001 was 12.9%.

To create shareholder value, one must generate cash operating earnings in excess of the common equity capital charge. Positive Economic Profit adds to shareholder value while negative Economic Profit erodes shareholder value.

Economic Profit measures changes in value created for the shareholders over time, and is an effective planning tool to focus attention on shareholder value growth opportunities. The objectives are to:

- Increase cash operating earnings without tying up more capital
- Target investments in projects that yield positive economic returns
- Improve overall effectiveness of invested capital through re-allocation from less effective uses
- Improve the risk-return profiles of the lines of business

Economic Profit analysis strengthens risk management discipline, as business segments are attributed capital based on their credit, market, operational and other risks. This discipline has resulted in controlled growth and a focus on returns commensurate with risks. Furthermore, Economic Profit encourages redistribution of resources to stronger performing businesses from businesses that are weaker performers.

As shown in Table 2 below, the bank had Economic Profit of $583 million in 2001. The capital charge grew at a faster rate than cash operating earnings due, in part, to issuance of common shares largely as part of the share exchange for the acquisition of Centura Banks, Inc. The Economic Profit amounts for the business segments in 2001 and 2000 are shown in the tables on pages 22, 24, 26, 28 and 30.

TABLE 2 **Economic Profit** (1)

(C$ millions, except percentage amounts)	**2001**	2000	1999	1998	1997
Net income available to common shareholders	**$ 2,300**	$ 2,074	$ 1,568	$ 1,627	$ 1,523
Adjustment for special items (after-tax)	**(204)**	–	88	17	(7)
Adjustment for amortization of goodwill and other intangibles (after-tax)	**286**	88	67	66	63
Cash operating earnings	**2,382**	2,162	1,723	1,710	1,579
Capital charge	**(1,799)**	(1,448)	(1,386)	(1,249)	(1,204)
Economic Profit (1)	**$ 583**	$ 714	$ 337	$ 461	$ 375
Economic Profit growth	**(18)%**	112%	(27)%	23%	188%
Average common equity	**$ 13,899**	$ 10,725	$ 10,268	$ 9,255	$ 8,303
Cost of common equity	**12.9%**	13.5%	13.5%	13.5%	14.5%

(1) Economic Profit is cash operating earnings (i.e., net income available to common shareholders excluding the after-tax impact of special items and amortization of goodwill and other intangibles) less a charge for the cost of common equity.

Line of business results

Overview

Table 3 below shows the bank's reported results by business segment in 2001. These results include several special items, shown in Table 4 and described below. Table 5 on page 21 shows the bank's core results (results excluding special items shown in Table 4) by business segment in 2001.

TABLE 3 Reported results by business segment

(C$ millions, taxable equivalent basis, except per share and percentage amounts)	2001 Personal & Commercial Banking	Insurance	Wealth Management	Corporate & Investment Banking	Transaction Processing	Total (1)	2000 Total
Net interest income	$ 5,347	$ 206	$ 384	$ 429	$ 150	$ 6,529	$ 5,307
Non-interest revenue	1,839	336	3,040	2,352	563	8,155	6,680
Gross revenues	7,186	542	3,424	2,781	713	14,684	11,987
Provision for credit losses	732	–	2	407	(2)	1,119	691
Non-interest expenses	4,216	375	2,691	1,804	476	9,641	7,628
Income taxes	926	(6)	223	200	95	1,350	1,412
Non-controlling interest and taxable equivalent adjustment	16	–	–	21	–	139	48
Net income	$ 1,296	$ 173	$ 508	$ 349	$ 144	$ 2,435	$ 2,208
Cash net income (2)	$ 1,376	$ 188	$ 626	$ 390	$ 152	$ 2,721	$ 2,296
As a % of total	51%	7%	23%	14%	6%	100%	100%
% growth over prior year	22%	83%	43%	(26)%	7%	19%	28%
Return on common equity	18.5%	20.0%	27.0%	9.6%	29.4%	16.6%	19.3%
Cash return on common equity (2)	19.7%	21.9%	33.5%	11.0%	31.1%	18.6%	20.2%
Economic Profit (3)	$ 456	$ 72	$ 97	$ (44)	$ 85	$ 583	$ 714
Diluted earnings per share						$ 3.55	$ 3.40
Cash diluted earnings per share (2)						$ 4.00	$ 3.55

(1) The difference between the total and the business segments presented represents other activities, which mainly comprise Corporate Treasury, Corporate Resources, Systems & Technology and Real Estate Operations.

(2) Cash net income, cash return on common equity and cash diluted earnings per share are computed by adding back to net income the after-tax amount of amortization of goodwill and other intangibles.

(3) Economic Profit is cash operating earnings (i.e., net income available to common shareholders excluding the after-tax impact of special items and amortization of goodwill and other intangibles) less a charge for the cost of common equity employed.

Table 4 below shows the special items in 2001. These increased diluted earnings per share by $.32 in 2001. There were three items that increased non-interest revenues – a $89 million gain on the formation of the Moneris Solutions merchant card processing joint venture with the Bank of Montreal, a $43 million gain on sale of the Group Retirement Services group pension benefits administration business and a $313 million gain on sale of RT Capital Management's institutional money management business. Non-interest expenses were increased by a $91 million restructuring charge related to integration and cost-saving initiatives in the U.S. retail banking platform. Income taxes were increased by a tax expense of $101 million reflecting a writedown of deferred tax assets due to a reduction in tax rates.

The business segment discussions on pages 21 to 31 refer to core amounts (i.e., excluding the special items shown in Table 4) for 2001.

TABLE 4 Special items affecting business segment results in 2001 (1)

(C$ millions, taxable equivalent basis, except per share amounts)	Personal & Commercial Banking	Wealth Management	Corporate & Investment Banking	Total
Non-interest revenue				
Gain on formation of Moneris Solutions joint venture	$ 89	$ –	$ –	$ 89
Gain on sale of Group Retirement Services	7	36	–	43
Gain on sale of RT Capital Management	–	313	–	313
	96	349	–	445
Non-interest expenses				
U.S. retail banking restructuring charge	91	–	–	91
Total impact (pre-tax)	5	349	–	354
Income taxes				
On items listed above	(21)	70	–	49
Enactment of change in tax rates (2)	45	5	27	101
Total impact (after-tax)	$ (19)	$ 274	$ (27)	$ 204
Impact on diluted earnings per share				$ .32

(1) There were no special items in the Insurance or Transaction Processing segments in 2001 and no special items at all in 2000.

(2) Included in the total $101 million is $24 million related to other activities, which mainly comprise Corporate Treasury, Corporate Resources, Systems & Technology and Real Estate Operations.

Core line of business results

Overview

Table 5 below shows core results by business segment for 2001.

Personal & Commercial Banking produced a core cash return on common equity (ROE) of 20.0% and generated 55% of the bank's core cash net income in 2001. Core cash net income increased 24% from 2000, as explained on page 22. RBC Centura (acquired on June 5, 2001) recorded core net income of $11 million and core cash net income of $69 million in 2001. RBC Prism Mortgage (acquired in April 2000) had core net income of $43 million, up from a net loss of $3 million in 2000, and core cash net income of $53 million compared to no cash earnings in 2000.

Insurance produced a cash ROE of 21.9% and generated 7% of the bank's core cash net income in 2001. Cash net income increased 83% from 2000, as explained on page 24. RBC Liberty Insurance (acquired on November 1, 2000) contributed core net income and core cash net income of $29 million and $39 million, respectively, in 2001.

Wealth Management produced a core cash ROE of 18.4% and generated 14% of the bank's core cash net income in 2001. Core cash net income declined by 19% as discussed on page 26. RBC Dain Rauscher's Private Client Group and fixed income divisions (acquired on January 10, 2001) had a core net loss of $72 million in 2001, reflecting weak client trading volumes in the full-service brokerage industry this year, retention compensation costs of $88 million and goodwill amortization expenses of $40 million. Core cash net loss was $33 million.

Corporate & Investment Banking produced a core cash ROE of 11.8% and generated 17% of the bank's core cash net income in 2001. Core cash net income declined 21% as explained on page 28. Dain Rauscher Wessels (acquired on January 10, 2001) had a core net loss of $88 million due to a weak capital markets environment in 2001, retention compensation costs of $88 million and goodwill amortization expenses of $27 million. Core cash net loss was $61 million.

Transaction Processing produced a cash ROE of 31.1% and generated 6% of the bank's core cash net income in 2001. Cash net income increased 7%, as explained on page 30.

The bank allocates capital to its business segments based on their credit, market, operational and other risks. Capital in each business segment has increased over last year due to additional business activity in each segment and several acquisitions made in 2001. The increases in capital attributed to goodwill recorded on acquisitions during the year negatively affected ROE and cash ROE for all of the operating segments. Capital increased by $1.6 billion in Personal & Commercial Banking, $.5 billion in Insurance, $1.0 billion in Wealth Management, $1.0 billion in Corporate & Investment Banking and $.1 billion in Transaction Processing during 2001.

TABLE 5 **Core results by business segment** (1)

(C$ millions, taxable equivalent basis, except per share and percentage amounts)	2001 Personal & Commercial Banking	Insurance	Wealth Management	Corporate & Investment Banking	Transaction Processing	Total (2)	2000 Total
Net interest income	$ 5,347	$ 206	$ 384	$ 429	$ 150	$ 6,529	$ 5,307
Non-interest revenue	1,743	336	2,691	2,352	563	7,710	6,680
Gross revenues	7,090	542	3,075	2,781	713	14,239	11,987
Provision for credit losses	732	–	2	407	(2)	1,119	691
Non-interest expenses	4,125	375	2,691	1,804	476	9,550	7,628
Income taxes	902	(6)	148	173	95	1,200	1,412
Non-controlling interest and taxable equivalent adjustment	16	–	–	21	–	139	48
Net income	$ 1,315	$ 173	$ 234	$ 376	$ 144	$ 2,231	$ 2,208
Cash net income (3)	$ 1,395	$ 188	$ 352	$ 417	$ 152	$ 2,517	$ 2,296
As a % of total	55%	7%	14%	17%	6%	100%	100%
% growth over prior year	24%	83%	(19)%	(21)%	7%	10%	22%
Return on common equity	18.8%	20.0%	11.9%	10.5%	29.4%	15.1%	19.3%
Cash return on common equity (3)	20.0%	21.9%	18.4%	11.8%	31.1%	17.1%	20.2%
Economic Profit (4)	$ 456	$ 72	$ 97	$ (44)	$ 85	$ 583	$ 714
Diluted earnings per share						$ 3.24	$ 3.40
Cash diluted earnings per share (3)						$ 3.68	$ 3.55

(1) Core results in 2001 exclude special items detailed in Table 4 on page 20. There were no special items in 2000.
(2) The difference between the total and business segments presented represents other activities, which mainly comprise Corporate Treasury, Corporate Resources, Systems & Technology and Real Estate Operations.
(3) Cash net income, cash return on common equity and cash diluted earnings per share are computed by adding back to net income the after-tax amount of amortization of goodwill and other intangibles.
(4) Economic Profit is cash operating earnings (i.e., net income available to common shareholders excluding the after-tax impact of special items and amortization of goodwill and other intangibles) less a charge for the cost of common equity employed.

Personal & Commercial Banking

Business profile

Personal & Commercial Banking serves over 11 million individuals, small and medium-sized businesses, and commercial clients in Canada, the U.S., the Caribbean and The Bahamas. Our distribution capabilities include a network of branches, business banking centres and other sales units, mobile sales representatives, automated banking machines, and telephone and Internet banking channels. We deliver a wide range of financial services which include deposit accounts, investments and mutual funds, credit and debit cards, business and personal loans, and residential and commercial mortgages, all supported by financial advice.

Strategy

Personal & Commercial Banking's objective is to grow profitable relationships with each business and personal client by:

- Creating a tailored client experience
- Reducing costs
- Effectively managing risk and capital

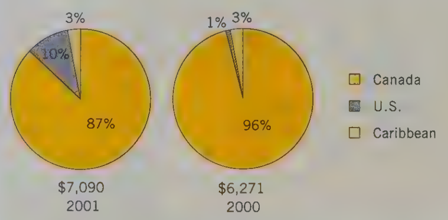
We plan to achieve our objectives through the following strategic initiatives:

- Drive revenue growth by increasing client contact and service differentiation, maximizing client retention and leveraging client segmentation with a life event focus
- Accelerate U.S. revenue and earnings growth through continued development of U.S. capabilities and expansion in targeted personal and commercial markets
- Sustain our cost management focus, offsetting volume increases and new initiatives with cost reductions
- Strengthen risk mitigation focus, resulting in earnings growth and reduced income volatility through "best in class" operational and credit risk processes

Substantial growth in U.S. revenues

With the addition of RBC Centura and RBC Prism Mortgage, Personal & Commercial Banking's U.S. revenues have increased from 1% of total revenues in 2000 to 10% in 2001.

CORE REVENUES BY GEOGRAPHY (C$ millions, taxable equivalent basis)



Core financial performance (1)

Personal & Commercial Banking's core cash net income was up 24%, while core net income was up 18% from 2000. The acquisitions of RBC Centura and RBC Prism Mortgage partially contributed to the growth, without which core cash net income and core net income would both have been up 13%.

Core revenues grew 13% and core non-interest expenses grew 12% from last year. Without RBC Centura, core revenues would have been up 7%, substantially outpacing a 3% growth in core expenses. The core efficiency ratio improved 50 basis points to 58.2% and the operating efficiency ratio improved 30 basis points to 58.1%.

Economic Profit was $456 million, core cash ROE was 20.0% and core ROE was 18.8%. Economic Profit, core cash ROE and core ROE reflected $1.6 billion of additional average common equity attributed to the segment during 2001, of which $900 million related to goodwill arising from the acquisition of RBC Centura.

Core results (1)

(C$ millions, taxable equivalent basis, except percentage amounts)	% change	2001	2000
Net interest income	14%	$ 5,347	$ 4,705
Non-interest revenue	11	1,743	1,566
Gross revenues	13	7,090	6,271
Provision for credit losses			
Allocated specific	23	662	539
Allocated general and unallocated	(36)	70	110
Total	13	732	649
Non-interest expenses	12	4,125	3,684
Net income before income taxes	15	2,233	1,938
Income taxes	11	902	812
Non-controlling interest and taxable equivalent adjustment	45	16	11
Net income	18%	$ 1,315	$ 1,115
Cash net income	24%	$ 1,395	$ 1,124
Cash net income as a % of total bank cash net income	600 bp	55%	49%
ROE	(170)bp	18.8%	20.5%
Cash ROE	(60)bp	20.0%	20.6%
Economic Profit	27%	$ 456	$ 360
Efficiency ratio	(50)bp	58.2%	58.7%
Operating efficiency ratio (2)	(30)bp	58.1%	58.4%
Average assets	10%	$ 143,000	$ 129,700
Average loans	8	135,400	125,700
Average deposits	13	111,400	98,900
Average common equity	31	6,700	5,100
Number of employees (full-time equivalent)	10	34,849	31,610

(1) Excluding special items in 2001 detailed in Table 4 on page 20.
(2) Operating efficiency ratio is defined on page 92.

Outlook for 2002

The slowing economy is likely to affect personal and business loan and deposit volumes in 2002. However, with the inclusion of a full year of results for RBC Centura, and our initiatives to drive revenue growth as outlined in our strategy, we anticipate achieving solid revenue growth in 2002. At the same time, we are committed to ongoing cost-saving initiatives such as eliminating process duplications and inefficiencies, strengthening electronic and other lower-cost delivery capabilities and optimizing the physical branch network to further reduce the efficiency ratio. Overall, our goal is for growth in cash net income in 2002. We have also undertaken several risk mitigation initiatives, including strengthening credit and behavioural scoring, tightening collection processes and optimizing credit policies and processes which we expect will limit asset quality deterioration next year.

Strategy by division

Canada

Operating in Canada under the RBC Royal Bank brand, the Personal & Commercial Banking business serves individuals, small and medium-sized businesses, and commercial clients in all provinces and territories. We offer a wide range of financial services and advice, as detailed in our business profile on page 22, and products and expertise in specialized areas such as foreign exchange, venture capital financing and financial planning.

We also provide individual and business clients with a full choice of Visa credit card products, debit cards and other smart card applications. Through Moneris Solutions, a 50/50 joint venture with Bank of Montreal, we provide merchants with credit and debit card acceptance services, including rental of point-of-sale terminals and Internet-secure electronic transaction solutions.

Our goal is to grow profitable relationships with each one of our business and personal clients by using our expertise in client relationship management, data warehousing and predictive modelling. These enable us to tailor client experiences with customized marketing offers and financial advice, and drive revenue growth by selling, cross-selling and up-selling.

We will continue to eliminate duplication and other cost inefficiencies, and look for opportunities to strengthen electronic and other lower-cost delivery capabilities. We are also continuing our focus on the management of credit and operational risk.

Core financial performance by division

The domestic business showed core revenue growth of 3% compared to last year. Higher deposit volumes and wider spreads on loans and credit cards were partially offset by deposit spread compression and lower lending volumes. Average residential mortgage balances increased 3% in 2001, as interest rate reductions during the year encouraged home purchases.

Core results (1)

(C$ millions, taxable equivalent basis)	% change	2001	2000
Gross revenues	3%	**$ 6,179**	$ 5,990
Average residential mortgages	3	**64,800**	62,900
Average personal loans	4	**24,500**	23,600
Average personal deposits	1	**72,900**	72,500
Average business loans	(2)	**36,000**	36,800
Average business deposits	26	**28,100**	22,300
Average card balances	13	**6,000**	5,300
Card spending volumes	4	**26,300**	25,300
Number of:			
Employees (full-time equivalent)	–	**29,558**	29,430
Automated banking machines	(5)	**4,236**	4,465
Branches	(1)	**1,125**	1,141
Online clients	48	**1,876,358**	1,264,400

(1) Excluding special items in 2001 detailed in Table 4 on page 20.

United States

Acquired in June 2001, RBC Centura serves as the focal point of our personal and commercial banking businesses in the U.S. Headquartered in Rocky Mount, North Carolina, RBC Centura serves individual and business clients in the southeastern U.S. Other U.S.-based personal and commercial banking businesses with links to RBC Centura include RBC Prism Mortgage, a Chicago-based national retail mortgage originator, and RBC Builder Finance, a Houston-based financing company for home builders and developers.

We are focused on expanding our business in the U.S. through both organic growth and selective niche acquisitions.

Our medium- to long-term priorities include:

- Accelerated introduction of sales and marketing initiatives
- Segmented approach to personal and commercial market growth
- Expansion of niche national lines of business such as builder finance and residential mortgages
- Realizing synergies from functional integration and cross-selling opportunities across the bank's entire platform
- Selective acquisitions in targeted product and geographic markets

The U.S. business reflected a full year of RBC Prism Mortgage's results (compared to just over 6 months in 2000) and 5 months of results for RBC Centura. Without RBC Centura, revenue growth for RBC Prism Mortgage would have been 354% in 2001, reflecting not only the inclusion of a full year of results, but also significant growth in mortgage originations. RBC Prism Mortgage accounted for virtually all of the mortgage origination volume growth in 2001. Growth in average balances largely reflects the addition of RBC Centura.

Core results

(C$ millions, taxable equivalent basis)	% change	2001	2000
Gross revenues	976%	**$ 678**	$ 63
Average residential mortgages	433	**1,600**	300
Average personal loans	n.m.	**1,300**	–
Average personal deposits	n.m.	**3,900**	200
Average business loans	n.m.	**3,900**	200
Average business deposits	460	**2,800**	500
Average card balances	n.m.	**100**	–
Card spending volumes	100	**200**	100
Mortgage originations ($ billions)	359	**22.5**	4.9
Number of:			
Employees (full-time equivalent)	296	**4,126**	1,041
Automated banking machines	n.m.	**258**	2
Branches (1)	n.m.	**242**	2
Online clients	181	**112,481**	40,000

(1) Excludes RBC Prism Mortgage sales offices of 264 in 2001 and 156 in 2000.
n.m. not meaningful

Caribbean and The Bahamas

Operating under the brand name RBC Royal Bank of Canada, we provide a broad range of personal and commercial banking products and services to individual and business clients in The Bahamas, Barbados, the Cayman Islands and Eastern Caribbean Islands through a network of branches and automated banking machines.

These operations recorded 7% growth in revenues compared to 2000, attributable mainly to increased spreads.

Core results

(C$ millions, taxable equivalent basis)	% change	2001	2000
Gross revenue	7%	**$ 233**	$ 218
Number of:			
Employees (full-time equivalent)	2	**1,165**	1,139
Automated banking machines	8	**54**	50
Branches	–	**39**	39

Insurance

Business profile

Operating as RBC Insurance, we provide a wide range of creditor, life, health, travel, home and auto insurance products and services to more than 5 million North American clients as well as reinsurance to business clients around the world. These products and services are offered through a wide variety of distribution channels, including the telephone, independent brokers, travel agents, a proprietary sales force and the Internet.

Strategy

We are focused on becoming a leading Canadian-based insurer, with select U.S. and international operations, offering a wide range of products and services efficiently through multiple distribution channels.

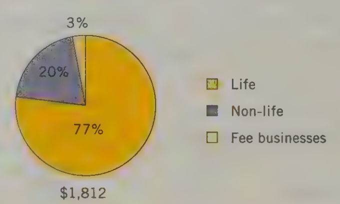
To accomplish this we will seek to:

- Continue to grow market share in Canada by expanding distribution channels, adding new products, enhancing products and leveraging products across existing distribution channels
- Develop market opportunities in niche reinsurance businesses, and expand infrastructure within offshore entities and Canadian operations to serve the high net worth market
- Continue to expand in the U.S.
- Maximize efficiency by integrating systems, services and structure in North America across business lines

Well-diversified business

Our mix of life, non-life and fee-based products and services gives us a strong insurance franchise that is also well-diversified geographically.

PREMIUMS & DEPOSITS BY DIVISION (C$ millions)



Core financial performance (1)

Cash net income increased 83% and net income increased 68% from a year ago. Had it not been for the impact of the September 11 terrorist attacks in the U.S. on our reinsurance and travel operations, cash net income and net income would have been approximately $30 million higher in 2001. The acquisition of RBC Liberty Insurance in November 2000 contributed significantly to the strong growth in 2001. Without this addition, cash net income and net income would have been up 45% and 40%, respectively, reflecting very strong performances from the Canadian life, creditor and travel insurance businesses.

Premiums and deposits were up 50% from 2000, and up 15% excluding RBC Liberty Insurance's premiums and deposits of $421 million. Revenues grew 119%, or 27%, excluding the addition of RBC Liberty Insurance.

Economic Profit was $72 million, cash ROE was 21.9% and ROE was 20.0%. Economic Profit, cash ROE and ROE reflected the addition of $500 million of average common equity attributed to the segment in 2001, of which $70 million related to goodwill on the acquisition of RBC Liberty Insurance.

Core results (1)

(C$ millions, taxable equivalent basis, except percentage amounts)	% change	2001	2000
Premiums & deposits	50%	**$ 1,812**	$ 1,208
Non-interest revenue			
Earned premium	54	**1,419**	923
Fee revenue/Other	983	**130**	12
Less: Policyholder benefits	57	**985**	626
Less: Policy acquisition costs	56	**228**	146
	106	**336**	163
Net interest income	145	**206**	84
Gross revenues	119	**542**	247
Non-interest expenses	117	**375**	173
Net income before income taxes	126	**167**	74
Income taxes	79	**(6)**	(29)
Net income	68%	**$ 173**	$ 103
Cash net income	83%	**$ 188**	$ 103
Cash net income as a % of total bank cash net income	300 bp	**7%**	4%
ROE	(1,860)bp	**20.0%**	38.6%
Cash ROE	(1,750)bp	**21.9%**	39.4%
Economic Profit	7%	**$ 72**	$ 67
Average assets	186	**6,300**	2,200
Average common equity	167	**800**	300
Number of employees (full-time equivalent)	96	**2,583**	1,318

(1) There were no special items for Insurance in 2000 or 2001 so core results are the same as reported results.

Outlook for 2002

We expect that Insurance will continue to experience good growth in 2002 as the insurance industry is less vulnerable to economic cycles compared to other industries, and our business is well diversified by product line and distribution channel. While the events of September 11 could result in further weakness in the reinsurance business, potentially higher premiums could partially offset that.

Strategy by division

Life

Our life business provides a wide range of individual and group life, health and creditor insurance products to both individual and business clients in Canada and the United States, as well as life retrocession to businesses around the world.

In Canada, life and health insurance products are distributed through a network of more than 5,000 independent brokers, almost 400 proprietary insurance agents and a direct sales unit. In the United States, Greenville, South Carolina–based Liberty Life Insurance Company provides life and health insurance products through a proprietary sales force of 650 agents, and simplified products through direct marketing channels.

Our goal is to continue to grow our life businesses by expanding our client base and range of products and services offered as well as by enhancing our distribution networks, developing additional solutions for complete insurance protection and reviewing opportunities for entry into new markets.

Core financial performance by division

Growth in premiums & deposits of 53%, and revenues of 110%, was due largely to the acquisition of RBC Liberty Insurance. Without RBC Liberty Insurance, premiums & deposits would have been up 7% and revenues 38%, reflecting continued strong growth in the Canadian life, creditor life and disability businesses.

Core results

(C$ millions)	% change	2001	2000
Premiums & deposits	53%	$ 1,393	$ 912
Gross revenue	110	450	214
Average assets	194	5,300	1,800
Clients			
Number of life and health policies in force in Canada (thousands)	7	2,645	2,475
Number of life policies in force in the U.S. (thousands)	n.m.	2,600	–
Assets under management in the U.S.	n.m.	375	–
Number of U.S. sales agents	n.m.	718	–

n.m. not meaningful

Non-life

Our non-life business includes home, auto, travel and property & casualty reinsurance for individual and business clients in Canada and select international markets.

We provide Canadians with a wide range of auto and home insurance products, offering them to individual clients and employee and affinity groups through direct sales channels. Travel products, which are sold through travel agents as well as bank channels in Canada, include trip cancellation insurance, out-of-country medical and baggage insurance.

We participate in the property & casualty reinsurance business by accepting a share of the risk on property and catastrophe policies issued by other insurance companies. The majority of our current business is generated from insurance companies in the United States and Europe.

Our goal is to grow our non-life business by continuing to build our domestic home and auto business and selectively expanding our property & casualty reinsurance portfolio.

Premiums & deposits grew 27%, while revenues fell 17%, reflecting the impact of the events of September 11 on the property & casualty reinsurance and travel businesses.

Core results

(C$ millions)	% change	2001	2000
Premiums & deposits	27%	$ 363	$ 286
Gross revenue	(17)	25	30
Average assets	133	700	300
Clients			
Home and auto – Personal lines policies in force (thousands)	70	68	40
Travel – Number of coverages (thousands)	2	2,510	2,471

Fee businesses

We are involved in a number of other key insurance and related activities that generate fee income, including travel assistance services, structured reinsurance and a proprietary sales distribution network.

Our travel and emergency assistance services are provided through Assured Assistance Inc., which co-ordinates the delivery of emergency health, evacuation and transportation services when clients have a travel emergency.

In the U.S., our fee businesses include outsourcing services and administration and software systems provided through Liberty Insurance Services Corporation (LIS). The Business Process Outsourcing division of LIS provides services such as underwriting, billing and collection, and claims processing for nearly 4 million policies under administration. The Software Solutions division develops Web-enabled software for life, health, annuity and reinsurance administration. Together, these divisions have more than 200 client sites and serve domestic, international and multinational insurers worldwide.

Our goal is to continue to leverage our existing infrastructure and technology to enhance existing programs and grow these businesses.

Premiums & deposits were up 409% due to growth in the structured reinsurance business. Revenues were up significantly but, excluding the addition of RBC Liberty Insurance, revenues would have been down $9 million from 2000, reflecting the impact of the events of September 11 on the structured reinsurance business.

Core results

(C$ millions)	% change	2001	2000
Premiums & deposits	409%	$ 56	$ 11
Gross revenue	n.m.	67	2
Average assets	200	300	100
Clients			
Career sales – Number of agents	14	455	400
Assured Assistance – Number of calls (thousands)	41	699	495
Number of policies under administration in the U.S. (thousands)	n.m.	4,342	–

n.m. not meaningful

Wealth Management

Business profile

Wealth Management provides direct and full-service brokerage, financial planning, investment counselling, trust, private banking, mutual funds and investment management services to private clients in Canada, the U.S. and internationally. Products and services are delivered through the bank's branch network across Canada, RBC Investments offices, private banking offices and other locations worldwide. Services are also delivered via the Internet and telephone. With the recent acquisitions, U.S. clients are served primarily in a full-service brokerage capacity in 41 states. We are client centred, focusing on relationship management to deliver comprehensive financial solutions globally, be they proprietary or third-party.

In October 2001, we restructured our distribution channels to enhance the client experience by offering seamless, comprehensive solutions while augmenting shareholder return. In addition to the financial planning business operated jointly with Personal & Commercial Banking, Wealth Management will consist of Canadian & International Brokerage (including self-directed and full-service brokerage), Global Private Banking (combining Global Private Banking, RBC Private Counsel, Canadian private banking and the Canadian personal trust business), Global Asset Management and U.S. Wealth Management (including RBC Dain Rauscher and the recently acquired Tucker Anthony Sutro).

Strategy

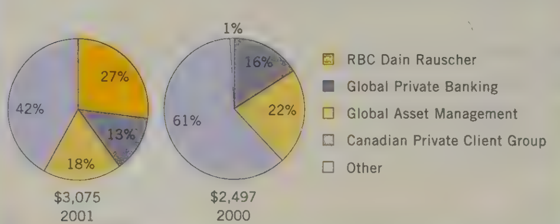
We will continue to be the trusted partner of private clients by providing personalized, comprehensive financial solutions. We will also:

- Continue to identify and segment our client base to tailor distribution channels and develop appropriate investment solutions
- Develop market leadership in the financial planning industry
- Protect and grow the domestic franchise while expanding U.S. and U.K. distribution
- Further develop superior distribution and investment capabilities by leveraging business practices across the segment and through strategic use of technology, thereby enhancing the client experience
- Attract and retain the best people and provide growth opportunities by creating a challenging environment and competitive offerings
- Proactively manage risk exposure by fostering a heightened awareness and commitment among all employees

Global focus

Wealth Management revenues are being further diversified with our increasing U.S. presence through RBC Dain Rauscher.

CORE REVENUES BY DIVISION (C$ millions, taxable equivalent basis)



Core financial performance (1)

Wealth Management's core cash net income and core net income declined by 19% and 43%, respectively, from 2000, due primarily to weaker capital markets and expenses associated with the acquisition of RBC Dain Rauscher. Excluding RBC Dain Rauscher, which was acquired in January 2001, core cash net income would have been down 12% and core net income down 26%.

Core revenues were up 23% and expenses were up 46% from a year ago. RBC Dain Rauscher contributed significantly to the growth in revenues and expenses. Without the addition of RBC Dain Rauscher, core revenues would have declined by 10% and expenses would have declined by 4%.

Economic Profit was $97 million, core cash ROE was 18.4% and core ROE was 11.9%. Declines in Economic Profit, core cash ROE and core ROE resulted from the above-mentioned factors, and reflected the addition of $1.0 billion of average common equity attributed to the segment in 2001, of which $540 million related to goodwill on the acquisition of RBC Dain Rauscher.

Core results (1)

(C$ millions, taxable equivalent basis, except percentage amounts)	% change	2001 (2)	2000
Net interest income	7%	$ **384**	$ 359
Non-interest revenue	26	**2,691**	2,138
Gross revenues	23	**3,075**	2,497
Provision for credit losses			
Allocated specific	300	**2**	(1)
Total	300	**2**	(1)
Non-interest expenses	46	**2,691**	1,846
Net income before income taxes	(41)	**382**	652
Income taxes	(38)	**148**	239
Net income	(43)%	$ **234**	$ 413
Cash net income	(19)%	$ **352**	$ 437
Cash net income as a % of total bank cash net income	(500)bp	**14%**	19%
ROE	(3,590)bp	**11.9%**	47.8%
Cash ROE	(3,240)bp	**18.4%**	50.8%
Economic Profit	(69)%	$ **97**	$ 309
Average common equity	125	**1,800**	800
Number of employees (full-time equivalent)	39	**10,512**	7,553

(1) Excluding special items in 2001 detailed in Table 4 on page 20.
(2) 2001 results include less than 10 months of results for RBC Dain Rauscher, which was purchased on January 10, 2001, but exclude Tucker Anthony Sutro, acquired on October 31, 2001.

Outlook for 2002

Revenue growth in 2002 will be fuelled by the inclusion of a full year of results for RBC Dain Rauscher and the newly acquired Tucker Anthony Sutro. The sale of RT Capital Management is not expected to have a significant impact on revenue growth. However, with the expectation that economic growth will not resume until the second half of 2002, generating cash net income growth for Wealth Management will be a challenge. To reduce the volatility of earnings resulting from the unpredictable nature of the capital markets, we will continue to focus on generating fees based on asset values instead of transaction volumes. As well, we are implementing a number of cost-containment programs in 2002 which should generate savings in addition to synergies to be derived from the integration of Tucker Anthony Sutro with RBC Dain Rauscher.

Strategy by division

Canadian Private Client Group

This group includes Action Direct (self-directed brokerage), private client division (full-service retail brokerage), financial planning, RBC Private Counsel and personal trust, and is the domestic distribution network for wealth accumulators and preservers, investors requiring advisor-based comprehensive financial solutions, and self-managed investors. Services are provided by over 180 investment representatives, over 1,460 investment advisors, 370 accredited financial planners, 60 investment counsellors, 80 trust officers, as well as via telephone and the Internet. Continued growth in Canada is essential to allow us to leverage our markets in the U.S., Latin America and Europe. Our goal is to continue building and enhancing client relationships while reconfiguring the self-directed brokerage business for the current market environment. With the creation of our new financial planning platform operated jointly with Personal & Commercial Banking, we will be able to effectively serve all Canadians with their investment needs, be they emerging affluent, affluent, high net worth or ultra-high net worth.

RBC Dain Rauscher

Acquired in January 2001, Minneapolis-based RBC Dain Rauscher helps U.S. private clients identify and achieve their financial goals. Our goal is to be a trusted partner of affluent private clients in chosen markets by providing them with personalized comprehensive financial solutions. On October 31, 2001, the acquisition of Boston-based Tucker Anthony Sutro was completed and we plan to merge it into RBC Dain Rauscher to create the ninth-largest full-service securities firm in the U.S., with nearly 2,100 investment executives serving individual clients from coast to coast. Expenses associated with the acquisition and consolidation of RBC Dain Rauscher amounted to $125 million in 2001 and are expected to be approximately $60 million in 2002. Our objectives for 2002 will be to integrate Tucker Anthony Sutro, increase market share in selected geographic markets and expand organically in existing markets where the bank already has a presence.

Global Private Banking

This globally focused unit provides private banking, trust and investment counselling solutions to high net worth clients from more than 100 countries. Our goal in 2002 is to grow revenues by leveraging the bank's North American distribution capabilities and by exploring potential European acquisitions. The recently announced integration of our Canadian trust, RBC Private Counsel and domestic private banking businesses with Global Private Banking (the international units) will facilitate the offering of both proprietary and third-party products and solutions. It will also facilitate the creation of fully integrated worldwide offerings for clients, and lead to cost synergies to be realized in 2002.

Global Asset Management

This unit, which includes Investment Management and Royal Mutual Funds, manages over $34 billion of proprietary mutual funds and provides investment management products and services through RBC Royal Bank, RBC Investments' distribution businesses and external distributors, to private and institutional clients in Canada and worldwide. Our family of mutual funds and other pooled products encompasses a broad range of investment solutions including money market, fixed income, balanced and equity funds, as well as alternative investments. Our mix of Canadian, U.S. and international equity funds offers investment opportunities in all major industry sectors on a global basis. RT Capital Management's institutional pension fund management business, with assets under management (AUM) of $30 billion (at July 31, 2001), was sold on August 15, 2001, allowing us to focus on our asset management segments with greater growth potential. In 2002, our goal is to broaden the distribution channels for investment management services and mutual fund products.

Core financial performance by division

Core revenues were up 23% from a year ago as a result of the acquisition of RBC Dain Rauscher. Without RBC Dain Rauscher, core revenues would have decreased 10% as a result of lower transaction-based and fee-based revenues reflecting weak capital markets in 2001.

Core revenues

(C$ millions)	% change	2001	2000
Canadian Private Client Group (1)	(15)%	$ 1,298	$ 1,527
RBC Dain Rauscher (2)	n.m.	829	–
Global Private Banking (3)	–	392	391
Global Asset Management (1), (3)	(2)	550	563
Other (4)	(63)	6	16
	23%	$ 3,075	$ 2,497

(1) 2000 revenues were restated for the reclassification of personal trust revenue from Global Asset Management to Canadian Private Client Group.
(2) RBC Dain Rauscher was purchased on January 10, 2001, and Tucker Anthony Sutro was purchased on October 31, 2001. Revenues from Tucker Anthony Sutro are not reflected above.
(3) 2000 results were restated for 2001 business unit reclassifications. Revenues from RT Capital Management were included in results until August 15, 2001.
(4) 2000 revenues include Group Retirement Services (sold January 2001), Bull & Bear Securities Inc. (sold June 2001) and other miscellaneous income.
n.m. not meaningful

Assets under administration (AUA) increased 59% from 2000. The addition of AUA from RBC Dain Rauscher and Tucker Anthony Sutro more than offset the decrease in AUA in the Canadian Private Client Group and Global Private Banking due to declines in market values. Institutional AUA increased 12% reflecting new business in Jersey and an increase in the value of the British pound against the Canadian dollar.

Assets under administration (AUA)

(C$ millions)	% change	2001	2000 (2)
Personal			
Canadian Private Client Group	(9)%	$ 137,300	$ 151,200
RBC Dain Rauscher (1)	n.m.	157,000	–
Global Private Banking	(5)	52,300	54,900
Total personal	68	346,600	206,100
Institutional	12	47,100	42,200
	59%	$ 393,700	$ 248,300

(1) RBC Dain Rauscher was purchased on January 10, 2001. Includes Tucker Anthony Sutro (AUA of $70.8 billion), purchased on October 31, 2001.
(2) 2000 results were restated to conform with the current presentation of results.
n.m. not meaningful

AUM grew 11% from last year, due to a substantial increase in personal AUM resulting from the acquisitions of RBC Dain Rauscher and Tucker Anthony Sutro. The decline in institutional AUM reflected the sale of RT Capital Management in August 2001, which had $30 billion in AUM. Mutual fund asset levels remained stable despite the decline in asset values due to weak market conditions, as investor interest in money market funds increased.

Assets under management (AUM)

(C$ millions)	% change	2001	2000
Personal (1)	139%	$ 51,400	$ 21,500
Institutional (1), (2)	(54)	16,950	36,700
Mutual funds	1	34,550	34,100
	11%	$ 102,900	$ 92,300

(1) RBC Dain Rauscher was purchased on January 10, 2001. Includes Tucker Anthony Sutro, purchased on October 31, 2001. Personal AUM for RBC Dain Rauscher and Tucker Anthony Sutro was $33.1 billion. Institutional AUM for RBC Dain Rauscher was $10.6 billion.
(2) RT Capital Management was sold on August 15, 2001.

Corporate & Investment Banking

Business profile

Operating under the RBC Capital Markets brand, Corporate & Investment Banking serves corporate, government and institutional clients in North America and in selected product and industry niches globally. We are headquartered in Toronto, with key centres of expertise in Minneapolis, New York and London, and offices in 29 other cities. This business offers North American expertise in the energy, communications, health care and technology sectors, and global expertise in the resource sectors. It is also globally competitive in Canadian securities, equity and credit derivatives, mergers & acquisitions, structured finance, foreign exchange and Eurobonds.

In 2001, Corporate & Investment Banking consisted of three operating divisions – Global Banking, Global Equity and Global Markets – along with Dain Rauscher Wessels (DRW), its U.S. equity capital markets division. We announced a restructuring of our businesses effective November 1, 2001, which will position us for future continental growth. (See highlights, page 12.)

Strategy

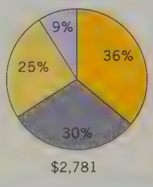
Key strategies for Corporate & Investment Banking include the following:

- Develop a strong North American franchise by expanding our market position in targeted U.S. industry sectors that include energy, technology, biotechnology, health care, consumer products and financial institutions, and maintain a leading full-service position in all of our Canadian markets
- Increase our market penetration in asset securitization through a global structure that includes term products, and broaden our share of the U.S. market in high-yield debt and alternative assets
- Build global niches in trading, distribution and structuring

Strength through revenue diversification

Our diversification by business line, as well as the acquisition of Dain Rauscher Wessels, enabled us to achieve strong revenue growth compared to last year, despite weak capital markets.

CORE REVENUES BY DIVISION (C$ millions, taxable equivalent basis)



Core financial performance (1)

Core cash net income for Corporate & Investment Banking was down 21% and core net income was down 25% from last year, reflecting a $316 million increase in the provision for credit losses largely in the U.S. telecommunication sector, weak capital market conditions and the acquisition of DRW. Without DRW, core cash net income and core net income would have declined 9% and 8%, respectively.

Revenues grew 19% while expenses grew 24% from 2000. Without the addition of DRW, revenues would have increased 9% and expenses would have declined by 2%. Net interest income rebounded from 2000 levels due primarily to a strong performance from the fixed income business and lower funding costs from the equity derivatives business. The lower funding costs for equity derivatives resulted from lower trading inventories and declining interest rates in 2001.

Economic Profit was $(44) million in 2001, while core cash ROE was 11.8% and core ROE was 10.5%. Declines in Economic Profit, core cash ROE and core ROE resulted from the above-mentioned factors, and reflected the addition of $1.0 billion of average common equity attributed to the segment in 2001, of which $360 million related to goodwill on the acquisition of DRW.

Core results (1)

(C$ millions, taxable equivalent basis, except percentage amounts)	% change	2001	2000
Net interest income	898%	$ **429**	$ 43
Non-interest revenue	3	**2,352**	2,287
Gross revenues	19	**2,781**	2,330
Provision for credit losses			
Allocated specific	402	**407**	81
Allocated general and unallocated	(100)	**–**	10
Total	347	**407**	91
Non-interest expenses	24	**1,804**	1,456
Net income before income taxes	(27)	**570**	783
Income taxes	(33)	**173**	259
Non-controlling interest and taxable equivalent adjustment	(5)	**21**	22
Net income	(25)%	$ **376**	$ 502
Cash net income	(21)%	$ **417**	$ 527
Cash net income as a % of total bank cash net income	(600)bp	**17%**	23%
ROE	(1,030)bp	**10.5%**	20.8%
Cash ROE	(1,020)bp	**11.8%**	22.0%
Economic Profit	(123)%	$ **(44)**	$ 194
Average assets	21	**159,500**	131,900
Average loans and bankers' acceptances	(2)	**30,700**	31,400
Average deposits	19	**73,600**	61,900
Average common equity	43	**3,300**	2,300
Number of employees (full-time equivalent)	16	**2,954**	2,541

(1) Excluding special items in 2001 detailed in Table 4 on page 20.

Outlook for 2002

Given the economic outlook, we are expecting modest revenue growth in 2002. Our focus will be on our ongoing cost-containment efforts and organizational restructuring designed to improve our client focus. We expect that our cost performance will offset any weakness in revenues, resulting in moderate cash net income growth. The key risk to our outlook for 2002 is a prolonged economic slowdown which could result in continued lower trading volumes and weakness in merger and acquisition, new issue and advisory activities.

Strategy by division

Global Banking

Global Banking offers a full range of credit and corporate finance products including debt and equity underwriting, mergers & acquisitions advice and execution, private equity, mezzanine debt, syndicated loans, asset securitization and structured finance.

Objectives for 2002 include:

- Within the new Capital Markets Services structure (see highlights, page 12), continuing to provide clients with creative, well-executed solutions based upon our focused industry expertise, our capital markets insight and our breadth of product capability
- Integration of our U.S. and Canadian investment banking teams
- Expansion of our structured finance and securitization capabilities
- Focused and active management of the loan portfolio, which is expected to further reduce the size of our corporate lending base while enhancing the quality of earnings from this source

Global Equity

Global Equity provides comprehensive Canadian equity research, sales and trading of listed equities and related products for institutional investors, distribution of new issues, and North American and international structured product solutions. As of November 1, 2001, our equity research, sales and trading functions were integrated with the Capital Markets Services division.

Our goal is to create a North American full-service boutique in information technology, health care, energy, mining and structured products, leveraging the integration of DRW into Capital Markets Services.

Objectives for 2002 include:

- Implementation of a new trading platform and internalization of an increased portion of our current order flow by the end of the second quarter
- Restructuring of our European sales & trading platform
- Sales & trading leveraging of hedge fund relationships

Global Markets

Global Markets provides round-the-clock money market, fixed income, foreign exchange and currency risk management services and has an extensive global sales and trading network operating from hubs in Toronto, London, New York and Sydney. Service is also delivered through Global Market's Internet dealing platform, FX Direct. Fixed income capabilities include the underwriting, trading and distribution of corporate and government debt, interest rate and credit derivatives, Eurobonds and high-yield bonds.

Objectives for 2002 include:

- Continued expansion of our global derivative capabilities
- Continued delivery of e-commerce solutions to clients
- Ongoing leadership in our domestic markets and maintenance of our competitive position globally
- Continuing to take advantage of proprietary opportunities in the marketplace

Dain Rauscher Wessels

The research capability of DRW has been the cornerstone of its successful investment banking, sales and trading activities. The industry focus of DRW complements areas of expertise in RBC Capital Markets, one of many factors that will drive the expansion of Capital Markets Services' North American platform as DRW is fully integrated into the division in 2002.

Core financial performance by division

Global Banking's revenues were largely unchanged from last year, despite material slowing in merger activity. The decline in revenues from mergers & acquisitions was offset by a 14% increase in corporate lending revenues due to wider spreads, and an increase in other lending fees. The provision for credit losses was $407 million, up from $91 million in 2000, largely reflecting credit deterioration in the U.S. telecommunication sector.

Core results

(C$ millions)	% change	2001	2000
Gross revenues	–	**$ 852**	$ 855
Average assets	–	**28,500**	28,500

Global Equity's revenues were down 6% from 2000, reflecting lower trading volumes and reduced equity market volatility. Sales and trading was impacted by the weak capital market conditions, resulting in lower agency commissions, and new issue, proprietary trading and domestic derivatives revenues, compared to last year. Global Equity Derivatives offset a portion of this decline with 24% revenue growth in 2001.

Core results

(C$ millions)	% change	2001	2000
Gross revenues	(6)%	**$ 684**	$ 731
Average assets	13	**16,100**	14,300

Global Markets generated record revenues in 2001, of nearly $1 billion, up 34% from last year. All product lines within Global Markets reported record revenue growth, especially the fixed income and foreign exchange businesses. Business volumes from FX Direct, our proprietary Web-based foreign exchange trading system, increased 54% from 2000.

Core results

(C$ millions)	% change	2001	2000
Gross revenues	34%	**$ 999**	$ 744
Average assets	28	**114,200**	89,100

DRW was acquired in January 2001, and generated revenue of $246 million, of which 64% came from U.S. equity sales and trading, with the remainder from investment banking activities. DRW implemented a number of expense management initiatives in 2001 that will continue into 2002.

Core results

(C$ millions)	% change	2001	2000
Gross revenues	n.m.	**$ 246**	–
Average assets	n.m.	**700**	–

n.m. not meaningful

Transaction Processing

Business profile

This segment, operating under the RBC Global Services brand, offers specialized transaction processing services to commercial, corporate and institutional clients in domestic and select international markets. Key businesses include custody, correspondent banking, cash management, payments and trade finance.

Strategy

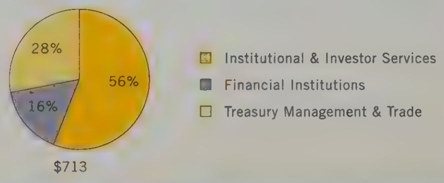
Key strategies for Transaction Processing include the following:

- Leverage client relationships and our leadership position in Canada to develop new business in select domestic and international markets
- Grow the business through key alliances, acquisitions and partnerships
- Align and build new product and service propositions such as offering outsourced mutual fund administration
- Continue to enhance our processing and systems platforms to deliver new capability and improved efficiencies, and to drive economies of scale

Stable, fee-based focus

Our processing businesses provide stability of earnings and high growth potential. We will continue to further diversify our revenue streams through the delivery of value-added services.

CORE REVENUES BY DIVISION (C$ millions, taxable equivalent basis)



Core financial performance (1)

Transaction Processing showed cash net income and net income growth of 7% from last year. The segment continues to account for 6% of the total bank's cash net income.

Revenue growth of 6% in 2001 outpaced expense growth of 4%. The Investor Services division accounted for a large part of the revenue growth.

Economic Profit was $85 million, cash ROE was 31.1% and ROE was 29.4%. Declines in cash ROE and ROE largely reflected $100 million of additional average common equity allocated to the segment to underpin operational risk.

Core results (1)

(C$ millions, taxable equivalent basis, except percentage amounts)	% change	2001	2000
Net interest income	(6)%	**$ 150**	$ 160
Non-interest revenue	10	**563**	514
Gross revenues	6	**713**	674
Recovery of provision for credit losses	(90)	**2**	21
Non-interest expenses	4	**476**	459
Net income before income taxes	1	**239**	236
Income taxes	(7)	**95**	102
Net income	7%	**$ 144**	$ 134
Cash net income	7%	**$ 152**	$ 142
Cash net income as a % of total bank cash net income	– bp	**6%**	6%
ROE	(280)bp	**29.4%**	32.2%
Cash ROE	(270)bp	**31.1%**	33.8%
Economic Profit	5%	**$ 85**	$ 81
Average common equity	25	**500**	400
Number of employees (full-time equivalent)	24	**2,553**	2,061

(1) There were no special items for Transaction Processing in 2000 or 2001 so core results are the same as reported results.

Outlook for 2002

Although revenues earned on deposits and cash balances are impacted by declines in interest rates, the bulk of our fee businesses are reasonably insulated from changes in the economic environment. As a result, with the inclusion of a full year of results for Perpetual Fund Services, and our growth initiatives, our goal is to achieve double-digit revenue growth in 2002. Transaction Processing will continue to focus on selling value-added services, such as securities lending and trade advisory services, to further diversify its revenue streams. In addition, we will work to expand new service propositions such as mutual fund administration outsourcing, and will be leveraging the Perpetual Fund Services acquisition.

Strategy by division

Institutional & Investor Services

Institutional & Investor Services is Canada's largest custodian as measured by assets under administration (AUA), and a recognized provider of custody and related securities services to corporate and institutional investors worldwide. Institutional & Investor Services operates from 13 locations throughout the world, with a global custody network spanning more than 80 markets.

Our goal is to protect and build our core Canadian franchise and be a focused global provider for fund managers, financial institutions and private banks. We will leverage the Perpetual Fund Services acquisition, which provides us with a full-service operational unit, to accelerate our growth opportunities in Australia and Asia-Pacific.

Our strategic alliance with CI Mutual Funds is a major initiative to increase business relationships with fund companies to tailor solutions that increase their efficiency and competitiveness in the marketplace. We are looking to explore more of these mutual fund outsourcing opportunities over the next year.

Core financial performance by division

Revenues grew 11% in 2001, driven by fee growth from new business and from value-added services. AUA grew 2% from 2000. The Perpetual Fund Services acquisition added $60 billion in AUA in 2001, but the impact of equity market declines on AUA largely offset this addition.

Core results

(C$ millions)	% change	2001	2000
Gross revenues	11%	$ 398	$ 360
AUA	2	936,700	920,000

Financial Institutions

A comprehensive range of correspondent banking services are provided to banks globally and to broker-dealers within Canada, including cash management, payments, clearing, trade, foreign exchange, derivatives lending, securities lending, custody and settlement, and structured financing.

We will leverage client relationships and our leadership position in the Canadian dollar clearing market to develop new business flows in targeted international markets and value-added solutions for our clients.

In 2002, we continue to target winning more than 50% of the available Continuous Linked Settlement mandates awarded in Canada.

Revenues decreased 4% from 2000, due largely to the movement of certain revenues from Transaction Processing to Corporate & Investment Banking during 2000. Excluding this transfer, revenues would have increased 4%, reflecting fee growth partially offset by reduced spreads on deposits and loans.

Core results

(C$ millions)	% change	2001	2000
Gross revenues	(4)%	$ 113	$ 118
Average assets	67	2,000	1,200
Average deposits	–	1,700	1,700

Treasury Management & Trade

Treasury Management & Trade provides cash management services to the small and medium enterprise (SME), commercial, corporate and public sector segments, offering a broad range of electronic solutions including e-commerce and other Web-based technologies. Our Trade team provides Canadian and foreign importers and exporters with a variety of innovative trade products, services and counsel. Our payments centre facilitates a high volume of domestic and international payment services for clients around the world, and is the largest processor of Canadian dollar payments in Canada.

We are committed to meeting the changing needs of our business clients through a product offering that is delivered through various access channels. A key initiative that is underway involves the development of a robust and expandable Web-based cash management platform to support the ongoing introduction of Web channel products and services for business clients.

We are well positioned in our trade franchise to take advantage of developing trade trends and leverage alliance partners to build new revenue streams both in North America and globally.

Revenues increased 3% from 2000 as fee income growth of 11% offset a 9% decline in net interest income. The reduction in short-term interest rates in 2001 impacted spreads earned on deposit balances. Payment volumes grew 17% as the payment error rate continued to decline.

Core results

(C$ millions, volumes in thousands)	% change	2001	2000
Gross revenues	3%	$ 202	$ 196
Average deposits	3	6,000	5,800
Payment volumes	17	4,900	4,200
Payment errors (per 10,000 payments)	(1)	.81	.82

Financial priority: Revenue growth and diversification

Highlights

- Core (operating) revenues up 19%, reflecting acquisitions
- Excluding acquisitions, operating revenues up 3%
- Net interest income up 23%
- Net interest margin of 1.97%, up 10 basis points
- Core non-interest revenues up 15%
- Core non-interest revenues 54% of total revenues

Net interest income

Net interest income was up 23% from 2000 to $6.5 billion. The majority of the increase stemmed from higher volumes of interest-earning assets, particularly from retail loans and assets resulting from acquisitions made in the last year. Net interest income would have been up 14% excluding the impact of recent acquisitions (Centura, Dain Rauscher, Liberty and Prism Financial).

In addition to acquisitions, net interest income benefited from lower funding costs for the equity derivatives portfolio reflecting lower interest rates. The trading revenues from the equity derivatives portfolio are recorded in non-interest revenues.

As shown in Table 6 below, the net interest margin increased by 10 basis points from last year to 1.97%, as the benefits of a higher net interest margin in RBC Centura and lower funding costs for Global Equity Derivatives more than offset a narrower spread between the prime rate and core deposit funding costs resulting from a reduction in the average Canadian prime rate to 6.56% from 7.05% in 2000.

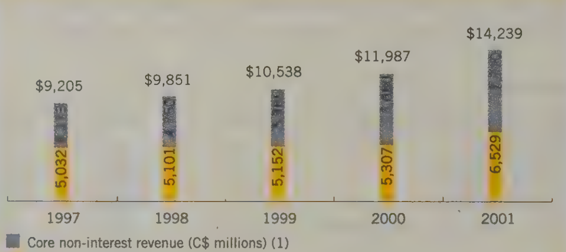
TABLE 6 **Net interest income and margin**

(C$ millions, except percentage amounts)	**2001**	2000	1999
Average assets	**$ 331,600**	$ 284,100	$ 270,000
Net interest income (1)	**6,529**	5,307	5,152
Net interest margin (2)	**1.97%**	1.87%	1.91%

(1) Taxable equivalent basis.
(2) Net interest income, on a taxable equivalent basis, as a percentage of average assets.

Strong core revenue growth

International expansion and diversified business drive core revenue growth of 19% in 2001. Annualized growth rate of 11.5%.



(1) Excluding special items, taxable equivalent basis.

Core non-interest revenue

As shown in Table 9 on page 35, core non-interest revenues (i.e., excluding special items shown in Table 4 on page 20) were $7.7 billion, up $1.0 billion or 15% from 2000, reflecting acquisitions. Core non-interest revenues accounted for 54% of total core revenues, down from 56% in 2000 due to the acquisition of Centura which derives a higher proportion of its revenues from net interest income than the bank.

Core non-interest revenues were up 11% in Personal & Commercial Banking, 106% in Insurance, 26% in Wealth Management and 3% in Corporate & Investment Banking, partially reflecting acquisitions. Non-interest revenues were up by 10% in Transaction Processing. Excluding the impact of acquisitions, core non-interest revenues were down 7%. Although four business segments experienced revenue growth, this was more than offset by a decline in Wealth Management, which experienced substantially lower client trading volumes in its full-service and self-directed brokerage operations.

All sources of core non-interest revenue improved in 2001, with the exception of card service revenues and loss on sale of securities. Card service revenues fell 31% reflecting the formation of the Moneris Solutions merchant processing joint venture in the first quarter and the securitization of credit card receivables during the year. The bank's 50% share of Moneris Solutions' net income was included in other non-interest revenues in 2001. The loss on sale of securities increased as the bank also wrote down some investments. Securitization revenues were up due to credit card and mortgage loan securitizations during the year, while credit fees were up due to higher fees from bankers' acceptances. Insurance revenues, investment management and custodial fees, trading revenues, and deposit and payment service charges all rose, partially due to acquisitions. Capital market fees and mutual fund revenues both grew by a modest 3%, reflecting the impact of weaker capital markets in 2001. Although Royal Mutual Funds experienced asset growth of over $300 million in 2001, clients moved out of higher-yielding products to lower-yielding money market funds over the past year. Other non-interest revenues were up substantially, largely reflecting revenues from acquisitions that are not included in other categories of non-interest revenues and also reflecting substantially higher revenues at RBC Prism Mortgage this year.

Excluding the effect of acquisitions, deposits and payment service charges, insurance revenues, investment management and custodial fees, credit fees, and mutual fund revenues all rose from 2000, reflecting organic growth. Securitization revenues also rose, largely reflecting the activity mentioned above. However, excluding the impact of acquisitions, capital market fees and trading revenues were down from 2000, generally due to weaker capital markets.

Outlook

The bank is targeting core revenue growth of 7–10% in fiscal 2002. This is due to the inclusion of 12 months of revenues from RBC Centura, up from 5 months in fiscal 2001, and the expectation of an improvement in the economy in the second half of calendar 2002.

TABLE 7 Net interest income on average assets and liabilities

(C$ millions, taxable equivalent basis, except percentage amounts)	Average balances (1)			Interest (2)			Average rate		
	2001	2000	1999	**2001**	2000	1999	**2001**	2000	1999
Assets									
Deposits with other banks									
Canada	**$ 415**	$ 528	$ 289	**$ 18**	$ 22	$ 12	**4.34%**	4.17%	4.15%
International	**17,101**	14,740	15,596	**813**	802	714	**4.75**	5.44	4.58
	17,516	15,268	15,885	**831**	824	726	**4.74**	5.40	4.57
Securities									
Trading account	**53,477**	40,669	32,452	**2,143**	1,519	1,197	**4.01**	3.74	3.69
Available for sale (3)	**21,623**	19,471	17,223	**1,170**	1,107	966	**5.41**	5.69	5.61
Held to maturity	**–**	1,057	1,161	**–**	71	67	**–**	6.72	5.77
	75,100	61,197	50,836	**3,313**	2,697	2,230	**4.41**	4.41	4.39
Assets purchased under reverse repurchase agreements	**29,591**	21,729	21,769	**1,163**	1,078	893	**3.93**	4.96	4.10
Loans (4)									
Canada									
Residential mortgage	**62,449**	59,860	57,979	**4,087**	3,891	3,784	**6.54**	6.50	6.53
Personal	**28,089**	26,949	24,347	**2,325**	2,290	1,945	**8.28**	8.50	7.99
Credit card	**4,586**	3,559	2,297	**556**	405	226	**12.12**	11.38	9.84
Business and government	**33,890**	34,381	33,799	**1,281**	1,506	1,399	**3.78**	4.38	4.14
	129,014	124,749	118,422	**8,249**	8,092	7,354	**6.39**	6.49	6.21
International	**33,232**	24,927	27,705	**3,783**	3,446	3,032	**11.38**	13.82	10.94
	162,246	149,676	146,127	**12,032**	11,538	10,386	**7.42**	7.71	7.11
Total interest-earning assets	**284,453**	247,870	234,617	**17,339**	16,137	14,235	**6.10**	6.51	6.07
Non-interest-bearing deposits with other banks	**267**	162	341						
Customers' liability under acceptances	**9,890**	10,281	9,508						
Other assets	**39,025**	27,724	27,531						
Allowance for credit losses	**(2,035)**	(1,937)	(1,997)						
Total assets	**$ 331,600**	$ 284,100	$ 270,000	**$ 17,339**	$ 16,137	$ 14,235	**5.23%**	5.68%	5.27%
Liabilities and shareholders' equity									
Deposits (5)									
Canada	**$ 110,228**	$ 107,533	$ 104,919	**$ 4,712**	$ 5,060	$ 4,480	**4.27%**	4.71%	4.27%
International	**90,459**	71,024	66,498	**4,000**	3,997	3,156	**4.42**	5.63	4.75
	200,687	178,557	171,417	**8,712**	9,057	7,636	**4.34**	5.07	4.45
Obligations related to securities sold short	**16,358**	14,195	15,015	**654**	656	554	**4.00**	4.62	3.69
Obligations related to assets sold under repurchase agreements	**19,892**	11,873	12,169	**894**	653	532	**4.49**	5.50	4.37
Subordinated debentures	**6,890**	5,129	4,499	**405**	344	286	**5.88**	6.71	6.36
Other interest-bearing liabilities	**3,124**	3,042	5,574	**145**	120	75	**4.64**	3.94	1.35
Total interest-bearing liabilities	**246,951**	212,796	208,674	**10,810**	10,830	9,083	**4.38**	5.09	4.35
Non-interest-bearing deposits	**20,732**	17,509	13,379						
Acceptances	**9,890**	10,281	9,508						
Other liabilities	**38,092**	30,811	25,958						
	315,665	271,397	257,519	**10,810**	10,830	9,083	**3.42**	3.99	3.53
Shareholders' equity									
Preferred	**2,036**	1,978	2,213						
Common	**13,899**	10,725	10,268						
Total liabilities and shareholders' equity	**$ 331,600**	$ 284,100	$ 270,000	**$ 10,810**	$ 10,830	$ 9,083	**3.26%**	3.81%	3.36%
Net interest income as a % of total average assets	**$ 331,600**	$ 284,100	$ 270,000	**$ 6,529**	$ 5,307	$ 5,152	**1.97%**	1.87%	1.91%
Net interest income as a % of total average interest-earning assets									
Canada	**$ 186,468**	$ 180,345	$ 169,167	**$ 5,324**	$ 4,796	$ 4,402	**2.86%**	2.66%	2.60%
International	**97,985**	67,525	65,450	**1,205**	511	750	**1.23**	.76	1.15
Total	**$ 284,453**	$ 247,870	$ 234,617	**$ 6,529**	$ 5,307	$ 5,152	**2.30%**	2.14%	2.20%

(1) Calculated on a daily basis.

(2) Interest income includes loan fees of $328 million (2000 – $274 million; 1999 – $250 million). The taxable equivalent adjustment is based on the Canadian tax rate of 41.5% (2000 – 42.8%; 1999 – 43.0%) and U.S. federal tax rate of 39.5%.

(3) Tax-exempt securities had average balances of $6,752 million (2000 – $2,848 million; 1999 – $2,017 million), interest earned of $141 million (2000 – $63 million; 1999 – $83 million) and average rates of 2.09% (2000 – 2.21%; 1999 – 4.12%).

(4) Average balances include nonaccrual loans.

(5) Deposits include savings deposits with average balances of $38 billion (2000 – $34 billion; 1999 – $33 billion), interest expense of $.6 billion (2000 – $.7 billion; 1999 – $.6 billion) and average rates of 1.58% (2000 – 2.06%; 1999 – $1.82%). Deposits also include time deposits with average balances of $44 billion (2000 – $38 billion; 1999 – $37 billion), interest expense of $2.0 billion (2000 and 1999 – $2.0 billion) and average rates of 4.55% (2000 – 5.26%; 1999 – 5.41%).

TABLE 8 Change in net interest income

(C$ millions, taxable equivalent basis)	2001 vs 2000 Increase (decrease) due to changes in average volume (1)	2001 vs 2000 average rate (1)	2001 vs 2000 Net change	2000 vs 1999 Increase (decrease) due to changes in average volume (1)	2000 vs 1999 average rate (1)	2000 vs 1999 Net change
Assets						
Deposits with other banks						
Canada	$ (5)	$ 1	$ (4)	$ 10	$ –	$ 10
International	119	(108)	11	(41)	129	88
Securities						
Trading account	507	117	624	307	15	322
Available for sale	118	(55)	63	128	13	141
Held to maturity	(71)	–	(71)	(6)	10	4
Assets purchased under reverse repurchase agreements	339	(254)	85	(2)	187	185
Loans						
Canada						
Residential mortgage	169	27	196	122	(15)	107
Personal	95	(60)	35	216	129	345
Credit card	123	28	151	139	40	179
Business and government	(21)	(204)	(225)	24	83	107
International	1,016	(679)	337	(326)	740	414
Total interest income	$ 2,389	$ (1,187)	$ 1,202	$ 571	$ 1,331	$ 1,902
Liabilities						
Deposits						
Canada	$ 124	$ (472)	$ (348)	$ 114	$ 466	$ 580
International	962	(959)	3	226	615	841
Obligations related to securities sold short	93	(95)	(2)	(32)	134	102
Obligations related to assets sold under repurchase agreements	377	(136)	241	(13)	134	121
Subordinated debentures	107	(46)	61	42	16	58
Other interest-bearing liabilities	4	21	25	(47)	92	45
Total interest expense	1,667	(1,687)	(20)	290	1,457	1,747
Net interest income	$ 722	$ 500	$ 1,222	$ 281	$ (126)	$ 155

(1) Volume/rate variance is allocated on the percentage relationship of changes in balances and changes in rates to the total net change in net interest income on a taxable equivalent basis.

TABLE 9 Non-interest revenue

(C$ millions, except percentage amounts)	2001	2000	1999	2001 vs 2000 Increase (decrease)	
Capital market fees	$ 1,870	$ 1,810	$ 1,209	$ 60	3%
Trading revenues	1,820	1,540	1,106	280	18
Investment management and custodial fees	895	684	547	211	31
Deposit and payment service charges	887	756	688	131	17
Mutual fund revenues	546	528	479	18	3
Foreign exchange revenues, other than trading	300	299	243	1	–
Card service revenues	290	420	362	(130)	(31)
Insurance revenues	263	151	174	112	74
Credit fees	237	212	189	25	12
Securitization revenues	125	104	220	21	20
Gain (loss) on disposal of premises and equipment	22	(16)	(5)	38	238
Gain (loss) on sale of securities	(128)	(11)	18	(117)	n.m.
Other	583	203	156	380	187
Total core	7,710	6,680	5,386	1,030	15
Special items (1)	445	–	105	445	n.m.
Total	$ 8,155	$ 6,680	$ 5,491	$ 1,475	22%

(1) Special items in 2001 are described in Table 4 on page 20. Special items in 1999 of $105 million consisted of a gain on sale of real estate of $95 million and gain on sale of securities of $28 million, offset by writedowns of certain investments of $18 million.
n.m. not meaningful

TABLE 10 Trading revenues

(C$ millions)	2001	2000	1999
Net interest income (1)	$ (68)	$ (365)	$ 5
Non-interest revenue (2)	1,820	1,540	1,106
Total	$ 1,752	$ 1,175	$ 1,111
By product			
Equity	$ 684	$ 495	$ 325
Fixed income and money markets (3)	726	378	492
Foreign exchange contracts (4)	340	301	290
Commodity and precious metals	2	1	4
Total	$ 1,752	$ 1,175	$ 1,111

(1) Includes interest earned on trading securities and other cash instruments held in the trading portfolios less funding costs associated with trading-related derivative and security positions.
(2) Primarily includes realized and unrealized gains and losses on trading securities, derivative instruments and foreign exchange trading activities.
(3) Includes Canadian government securities and corporate debt instruments, swaps, interest rate options, interest rate futures, forward rate agreements and related cash instruments used to hedge the trading derivatives portfolios.
(4) Includes foreign exchange spot, forward, futures and options contracts.

Trading revenues

Trading revenues include gains and losses on securities and derivatives that the bank trades actively, or expects to hold for short periods, and whose values are marked-to-market daily. A description of trading revenues included in net interest income and non-interest revenues is provided in footnotes (1) and (2) to Table 10 above.

Total trading revenues were up $577 million or 49% in 2001, partially reflecting acquisitions in the last year. The bank continues to avoid large proprietary trading positions and conducts the majority of trading to accommodate clients in the major G7 markets and currencies. Trading revenues recorded in net interest income increased by $297 million during 2001, with $118 million and $28 million, respectively, relating to the equity derivatives portfolio and acquisitions during the year. These two factors accounted for $(63) million and $318 million, respectively, of the $280 million increase in trading revenues included in non-interest revenues. As mentioned on page 32, funding costs from the Global Equity Derivatives portfolio are included in net interest income and the revenues are recorded in non-interest revenue.

Excluding acquisitions, trading revenues in non-interest revenues decreased $38 million from 2000, largely reflecting weaker capital markets in 2001.

With respect to products, as shown in Table 10 above, revenues from equity contracts increased 38%, largely reflecting lower funding costs in the equity derivatives business. Revenues from debt instruments grew 92% due to the flattening of the fixed income yield curve, while trading revenues from foreign exchange contracts rose 13%.

Financial priority: Cost control

Highlights
- Core non-interest expenses up 25% from 2000
- Operating non-interest expenses excluding acquisitions were virtually unchanged from 2000

Performance

As shown in the table below, core non-interest expenses (i.e., excluding special items mentioned in Table 4 on page 20) were up $1.9 billion or 25% from 2000.

Operating non-interest expenses (which exclude the special items mentioned in Table 4 on page 20, the costs of Stock Appreciation Rights (SARs) and certain acquisition costs such as retention compensation) were up 23% in 2001, with $176 million of retention compensation expenses relating to the Dain Rauscher acquisition, and SAR expenses of $23 million compared to $52 million in 2000. SARs were first granted under the Stock Option Plan in November 1999, and their costs are determined every quarter based upon the change in the bank's share price and the vesting, which occurs over time.

Non-interest expenses of recent acquisitions (including costs of amortizing goodwill and other intangibles) were $1,823 million in 2001, up from $63 million in 2000. Excluding these costs, operating non-interest expenses were virtually unchanged from 2000.

During 2001, certain pension, postretirement and postemployment plans were reviewed. This review resulted in changes to assumptions used to determine future benefit obligations and, as a result, an additional $87 million of human resource benefit costs were recorded.

Also, capital market-related businesses within Corporate & Investment Banking and Wealth Management accelerated efforts to adjust capacity in their operations in light of deteriorating market conditions, which were exacerbated by the September 11 terrorist attacks in the U.S. This resulted in $57 million of expenses, primarily related to employee severance costs.

Furthermore, as part of the reorganization of the Global Private Banking business described on page 26, a $38 million writedown of goodwill relating to Connor Clark Limited was recorded and this expense was included in total amortization of goodwill and other intangibles. Connor Clark, a high net worth private client business, was acquired in 1999.

Excluding these employee benefit, downsizing and goodwill writedown costs, and the non-interest expenses recorded during the year for recent acquisitions, adjusted operating non-interest expenses would have been down $167 million or 2%, as shown in the table below. Wealth Management would have been down $139 million or 8%, Corporate & Investment Banking down $49 million or 3%, Personal & Commercial Banking down $16 million or .4%, Transaction Processing up $17 million or 4% and Insurance up $23 million or 14%. The increases in Transaction Processing and Insurance reflect the growth in their businesses. The reductions in Wealth Management and Corporate & Investment Banking largely reflect lower variable compensation in the weaker capital markets environment and cost control efforts, while the decline in Personal & Commercial Banking's expenses reflects ongoing success with its cost control initiatives implemented in 1999 and 2000.

On this same basis (i.e., excluding all of the above-mentioned costs) human resource costs would have been down 8%, occupancy costs up 7%, professional fees up 14%, amortization of goodwill and other intangibles costs up 22% and other costs up 48%. The significant increase in other costs is largely related to a change at the beginning of 2001 in the ownership status of Symcor, an outsourcing service provider. Since Symcor is now accounted for as an equity investment, in 2001, $303 million of Symcor-related costs were included in other non-interest expenses, whereas in 2000, $264 million of costs relating to Symcor were recorded in a variety of expense categories, primarily in communications, human resources and equipment.

Adjusted non-interest expenses

Adjusted operating non-interest expenses, excluding acquisitions, down 2% from 2000 (C$ millions, except percentage amounts)	2001	2000	2001 vs 2000 Increase (decrease)	
Non-interest expenses	**$ 9,641**	$ 7,628	**$ 2,013**	**26%**
Less: Special items (1)	**(91)**	–	**(91)**	
Core non-interest expenses	**9,550**	7,628	**1,922**	**25**
Less: Costs of Stock Appreciation Rights	**(23)**	(52)	**29**	
RBC Dain Rauscher retention compensation	**(176)**	–	**(176)**	
Operating non-interest expenses	**9,351**	7,576	**1,775**	**23**
Less: Non-interest expenses of recent acquisitions (2)	**(1,823)**	(63)	**(1,760)**	
Operating non-interest expenses, excluding acquisitions	**7,528**	7,513	**15**	**–**
Less: Significant 2001 expenses (3)	**(182)**	–	**(182)**	
Adjusted operating non-interest expenses, excluding acquisitions	**$ 7,346**	$ 7,513	**$ (167)**	**(2)%**

(1) Shown in Table 4 on page 20.
(2) Represents non-interest expenses incurred by recently acquired companies (Centura, Liberty, Dain Rauscher and Prism Financial) and excludes retention compensation and cost-cutting expenses already deducted to calculate operating non-interest expenses.
(3) Consists of $87 million of human resource benefit costs, $57 million of expenses related to cost cutting and a $38 million writedown of goodwill, all described above.

Outlook
In 2002, the bank expects to grow operating expenses at a lower rate than operating revenues.

TABLE 11 **Non-interest expenses**

(C$ millions, except percentage amounts)	2001	2000	1999	2001 vs 2000 Increase (decrease)	
Human resources					
Salaries	$ 3,060	$ 2,496	$ 2,594	$ 564	23%
Variable compensation	1,897	1,662	927	235	14
Benefits	717	537	511	180	34
	5,674	4,695	4,032	979	21
Occupancy					
Net premises rent	553	384	262	169	44
Premises repairs and maintenance	55	68	88	(13)	(19)
Depreciation	91	81	92	10	12
Property taxes	6	15	41	(9)	(60)
Energy	11	22	33	(11)	(50)
	716	570	516	146	26
Equipment					
Office and computer rental and maintenance	375	376	376	(1)	–
Depreciation	296	288	297	8	3
	671	664	673	7	1
Communications					
Telecommunication	283	225	225	58	26
Marketing and public relations	180	173	182	7	4
Postage and courier	108	170	157	(62)	(36)
Stationery and printing	108	127	129	(19)	(15)
	679	695	693	(16)	(2)
Professional fees	390	267	274	123	46
Amortization of goodwill and other intangibles	288	91	70	197	216
Other					
Business and capital taxes	171	134	114	37	28
Deposit insurance	30	30	71	–	–
Travel and relocation	121	85	90	36	42
Employee training	43	38	48	5	13
Donations	35	26	29	9	35
Other	732	333	361	399	120
	1,132	646	713	486	75
Total core	9,550	7,628	6,971	1,922	25
Special items (1)	91	–	170	91	n.m.
Total	$ 9,641	$ 7,628	$ 7,141	$ 2,013	26%

(1) Special items in 2001 are described in Table 4 on page 20. Special items in 1999 of $170 million related to a $153 million restructuring charge and other charges aggregating $17 million.
n.m. not meaningful

Focus on cost control

The bank is sustaining its focus on cost control, and a number of cost-saving measures initiated in each business segment in 2001 will continue into 2002 and 2003.

Personal & Commercial Banking intends to sustain flat non-interest expenses, offsetting expenses associated with increased volumes and new initiatives with cost reductions. There are four parts to this strategy:

- Eliminating duplication and other process inefficiencies. As an example, in August 2001, the credit card business was integrated into Personal & Commercial Banking's product and sales structure
- Strengthening electronic and other low-cost delivery capabilities
- Optimizing the physical network. Since 1993, Personal & Commercial Banking has streamlined its physical network, with a net reduction of over 400 service delivery units. At the same time, it has implemented an urban, suburban and rural branch configuration strategy, complemented by selective in-store banking facilities and agencies on First Nations reserves, to ensure that branches are responsive to the different needs in different markets
- Pursuing outsourcing/co-sourcing and divestiture opportunities. During the first quarter of 2001, Personal & Commercial Banking outsourced its automated banking machine operations to NCR and also created Moneris Solutions, a joint venture with Bank of Montreal that is focused on merchant card acquiring business

Additionally, RBC Centura, acquired in 2001, plans to continue achieving cost savings in the U.S. retail banking platform. RBC Centura has set itself the medium-term (3–5 year) goal of expense growth in the 3–4% range, below their target revenue growth rate of 6–8%. Annual expense savings of US$70 million are to be generated from the consolidation of Security First Network Bank's back-office and call centre operations into RBC Centura in mid-August 2001, from utilizing the buying power of the bank and by combining the human resource, finance and marketing functions of RBC Centura, RBC Prism Mortgage and RBC Builder Finance into one central location during 2002.

A major focus for the Insurance segment is to integrate systems and business processes both within Canada and the U.S. Integration opportunities are largely technology-based. Insurance is already leveraging eBusiness capabilities to both increase revenue and reduce costs by selling travel insurance, and by providing home & auto insurance quotes and personal accident life insurance quotes on the Internet to Canadian clients.

RBC Liberty Insurance in the U.S. is focusing on expense reductions and is working to centralize information technology infrastructures, consolidate applications software within the platform and reduce overhead costs.

Wealth Management's cost-cutting program, initiated in 2001 to offset market weakness, will continue into 2002. In October 2001, the segment combined the RBC Private Counsel and the Canadian personal trust and private banking businesses with Global Private Banking to provide clients with more valuable offerings and to create operational efficiencies. Additionally, Action Direct's (self-directed brokerage) capacity was adjusted for current market conditions. The segment is now targeting savings in technology, marketing and operations across all business units and continues to look at other ways to permanently reduce non-interest expense.

The U.S. Wealth Management platform, RBC Dain Rauscher, is focusing on the integration of the Tucker Anthony Sutro acquisition, which closed on October 31, 2001. Over US$60 million in annual cost savings have been targeted, with over 50% of those savings expected to be achieved in 2002 and the remainder in 2003. There are a variety of initiatives that are being pursued to achieve these savings, including reducing overlapping positions and leveraging scale opportunities that already exist in RBC Dain Rauscher's platform.

Corporate & Investment Banking continues to view cost control as a critical priority. For example, the segment managed to keep its staff count flat during 1998–2000, despite adding almost 120 personnel in new initiatives. The growth of 413 personnel in 2001 largely reflected acquisitions. Over the last two quarters of 2001, Corporate & Investment Banking began cutting costs and, with the events of September 11, accelerated its efforts. This cost cutting will be achieved by reviewing all levels of the organization, but will primarily be directed at downsizing the Capital Markets Services business.

The Transaction Processing segment has a relatively high fixed cost base, is a scale business and is targeting continuing improvements in operating efficiency. The key levers to achieve this are continuing technology investments and revenue growth. Greater volumes are expected to be achieved through both organic revenue growth and selective acquisitions, which should also provide opportunities for cost savings through integration.

TABLE 12 **Taxes**

(C$ millions, except percentage amounts)	2001	2000	1999
Income taxes			
Consolidated statement of income	$ 1,350	$ 1,412	$ 974
Taxable equivalent adjustment	32	28	35
	1,382	1,440	1,009
Other taxes			
Goods and services and sales taxes	221	208	187
Payroll taxes	237	188	176
Provincial capital taxes	146	108	98
Property taxes (1)	6	16	55
Business taxes	25	26	16
Insurance premium taxes	21	11	6
	656	557	538
Total	$ 2,038	$ 1,997	$ 1,547
Effective income tax rate (2)	34.7%	38.8%	36.0%
Effective total tax rate (3)	44.5%	47.3%	47.2%

(1) Includes amounts netted against non-interest revenue regarding investment properties.
(2) Income taxes reported in the consolidated statement of income, as a percentage of net income before income taxes.
(3) Total income taxes and other taxes as a percentage of net income before income taxes and other taxes expressed on a taxable equivalent basis.

Income and other taxes

Income and other taxes shown in Table 12 above were $2.0 billion in 2001, comprising income taxes of $1,382 million (including a taxable equivalent adjustment) and other taxes of $656 million. Income taxes declined by $58 million from 2000, largely due to decreases in tax rates. Other taxes were up $99 million as a result of higher goods and services tax and sales taxes, payroll taxes and provincial capital taxes.

As shown above, the effective income tax rate decreased from 38.8% in 2000 to 34.7% in 2001, reflecting a reduction in federal and provincial tax rates in Canada as well as lower tax rates applicable to special items discussed in Table 4 on page 20.

In addition to the income and other taxes reported in the consolidated statement of income, the bank recorded income tax benefits of $451 million in 2001 ($17 million in 2000) in shareholders' equity as shown in note 10 of the consolidated financial statements.

Financial priority: Balance sheet and capital management

Highlights

- Strong growth in consumer loans of 9%
- Deposits up 14%, partially due to the acquisition of Centura Banks, Inc.
- Issued $3.9 billion, and repurchased $500 million, of common shares
- Issued $250 million, and redeemed $300 million, of preferred shares
- Issued $1 billion, and redeemed US$350 million, of subordinated debentures
- Issued $750 million of innovative Tier 1 capital (RBC TruCS™)
- Internally generated capital of $1.4 billion

Total assets were $362 billion at October 31, 2001, up $68 billion or 23% from October 31, 2000, with RBC Centura (acquired in June 2001) accounting for $22 billion of the increase.

Total loans (before deducting the allowance for loan losses) were up $13.3 billion or 8% from October 31, 2000, with consumer loans (residential mortgage, personal and credit card loans) up $8.6 billion or 9%, with RBC Centura contributing $4.3 billion of this increase. Residential mortgages were up $4.5 billion or 7% (net of $800 million of mortgage securitizations during the year) and personal loans were up $4.5 billion or 16%. RBC Centura contributed $1.2 billion and $3.0 billion, respectively, to these increases. Credit card balances decreased $380 million or 8%, as credit card securitizations of $1.0 billion more than offset growth of $620 million, including $130 million of card balances in RBC Centura. Business and government loans and acceptances were up $4.7 billion or 7%, but were down $3.6 billion or 5% excluding RBC Centura, largely reflecting reductions in the Canadian small business and U.S. corporate loan portfolios.

Total deposits were $236 billion, up $29.5 billion or 14% from October 31, 2000, with RBC Centura contributing $11.6 billion of the increase. Interest-bearing deposits were up $27.5 billion and non-interest-bearing deposits up $2.0 billion ($17.7 billion and $180 million, respectively, excluding RBC Centura). Personal deposits were up $11.7 billion or 13% and business and government deposits up $13.1 billion or 14% ($3.5 billion or 4% and $9.7 billion or 10%, respectively, excluding RBC Centura). Further details on deposits are provided in Table 24 on page 55.

RBC Capital Trust, a closed-end trust, issued a second series of transferable trust units (RBC TruCS) in 2001 for $750 million, bringing the outstanding total to $1.4 billion. RBC TruCS are reported as a non-controlling interest in subsidiaries on the consolidated balance sheet, and are included in Tier 1 capital under guidelines issued by the Superintendent of Financial Institutions Canada (OSFI).

Total balance sheet capital, which includes shareholders' equity and subordinated debentures, was $24.9 billion at October 31, 2001, up $5.7 billion or 30% from a year ago. The most significant factors behind the increase in capital over 2000 were net external capital financing of $3.9 billion and internal capital generation of $1.4 billion during 2001.

Capital management

Capital management requires balancing the desires for strong capital ratios and maintaining high debt ratings with the need to also provide competitive returns to shareholders. In striving for this balance, the bank considers expected levels of risk-adjusted assets and balance sheet assets, future investment plans and the costs and terms of current and potential capital issues.

The bank is committed to maintaining strong capital ratios through internal capital generation, the issuance of capital instruments when appropriate, and controlled growth in risk-adjusted assets. The significant capital management activity table on page 40 details the bank's capital activities during the year. These were undertaken to manage the bank's capital structure as it implemented its strategies.

Regulatory capital

Capital levels for Canadian banks are regulated pursuant to guidelines issued by OSFI, based on standards issued by the Bank for International Settlements (BIS) and Canadian GAAP financial information.

Regulatory capital, which differs from capital recorded on the consolidated balance sheet, is allocated into two tiers. Tier 1 capital comprises the more permanent component of capital. The components of Tier 1 and Tier 2 capital are shown in Table 13 on page 41.

Regulatory capital ratios are calculated by dividing Tier 1 and Total capital by risk-adjusted assets. Risk-adjusted assets, as shown in Table 14 on page 42, are determined by applying prescribed risk weights to balance sheet assets and off-balance sheet financial instruments according to the relative credit risk of the counterparty. Risk-adjusted assets also include an amount for the market risk exposure associated with the bank's trading portfolio.

The bank's policy is to remain well capitalized so as to provide a safety net for the variety of risks that it is exposed to in the conduct of its business. In 1999, OSFI formally established risk-based capital targets for deposit-taking institutions in Canada. These targets are a Tier 1 capital ratio of at least 7% and a Total capital ratio of at least 10%. As at October 31, 2001, the bank's Tier 1 and Total capital ratios were 8.7% and 11.8%, respectively, compared to 8.6% and 12.0% at October 31, 2000. Despite paying $7.0 billion for U.S. acquisitions in 2001 (see note 2 of the consolidated financial statements on pages 65 and 66), the bank maintained capital ratios that were consistent with its medium-term goals (shown on page 6). The bank's capital ratios on a U.S. basis, calculated using guidelines issued to U.S. banks by the Board of Governors of the Federal Reserve System and using U.S. GAAP financial information, are provided in Table 13 on page 41.

Pending developments

In 1999, BIS issued a proposal for a new capital adequacy framework to replace the previous Capital Accord of 1988, under which the bank is currently regulated. This proposal continues to be at the discussion phase subsequent to the issue of a second consultative paper in January 2001. It is difficult at this stage to estimate the impact of these proposed amendments on the bank's regulatory capital requirements. Implementation of the final proposals is not likely to occur prior to 2005.

Significant capital management activity in 2001 (1)

(C$ millions)	
Capital market activity	
Common shares	
December 2000, issued common equity	$ 576
June 2001, issued common equity in exchange for all the outstanding shares of Centura Banks, Inc.	3,317
June 2001, commenced repurchase of common shares (2)	(509)
Preferred shares (3)	
June 2001, issued perpetual Non-cumulative First Preferred Shares Series S	250
August 2001, redeemed all of the Non-cumulative First Preferred Shares Series H	(300)
Subordinated debentures (4)	
January 2001, issued subordinated debentures	500
February 2001, issued subordinated debentures	125
April 2001, issued subordinated debentures	400
May 2001, redeemed US$350 million floating-rate debentures	(538)
Innovative Tier 1 capital (RBC TruCS)	
December 2000, issued a second series of RBC TruCS	750
	$ 4,571
Other activity	
Share capital	
In the second quarter, the limit on the maximum aggregate consideration for which common shares may be issued was removed and the limit on the maximum aggregate consideration for which first preferred shares may be issued was increased from $5 billion to $10 billion. The limit on the maximum aggregate consideration for which second preferred shares may be issued remains unchanged at $5 billion.	

(1) Gross amounts before issuance costs.
(2) Under a normal course issuer bid to purchase up to 18 million common shares through the facilities of The Toronto Stock Exchange. By October 31, 2001, the bank had repurchased 10.9 million common shares. The program will be in effect for a period of one year from June 22, 2001.
(3) On November 26, 2001, the bank redeemed US$200 million of Non-cumulative First Preferred Shares Series I.
(4) On November 8, 2001, the bank issued US$400 million of subordinated debentures through the European Medium Term Note Programme.

TABLE 13 **Capital ratios** (1)

(C$ millions, except percentage amounts)	2001	2000	1999
Tier 1 capital			
Common equity	$ 16,141	$ 11,504	$ 10,606
Non-cumulative preferred shares	2,024	2,037	2,009
Non-controlling interest in subsidiaries			
RBC TruCS	1,400	650	–
Other	28	23	22
Goodwill	(4,742)	(647)	(611)
	14,851	13,567	12,026
Tier 2 capital			
Permanent subordinated debentures	477	457	441
Other subordinated debentures (2)	5,935	5,138	4,040
General allowance (3)	1,410	1,188	1,080
Non-controlling interest in subsidiaries	–	1	2
	7,822	6,784	5,563
Investment in insurance subsidiaries	(2,107)	(960)	(672)
Other substantial investments	(387)	(342)	(219)
First loss facility	(8)	(5)	–
Total capital	$ 20,171	$ 19,044	$ 16,698
Risk-adjusted assets	$ 171,047	$ 158,364	$ 149,078
Capital ratios (4)			
Common equity to risk-adjusted assets	9.4%	7.3%	7.1%
Tier 1 capital to risk-adjusted assets	8.7%	8.6%	8.1%
Total capital to risk-adjusted assets	11.8%	12.0%	11.2%
Assets-to-capital multiple (5)	17.2	15.3	16.5
U.S. basis (4), (6)			
Tier 1 capital to risk-adjusted assets	8.1%	7.8%	7.6%
Total capital to risk-adjusted assets	11.2%	11.3%	10.7%
Equity to assets (7)	5.3%	4.5%	4.6%
Tier 1 leverage (8)	4.1%	4.2%	4.1%

(1) Using guidelines issued by the Superintendent of Financial Institutions Canada and Canadian GAAP financial information except as noted in footnote (6).
(2) Subordinated debentures that are within five years of maturity are subject to straight-line amortization to zero during their remaining term and, accordingly, are included above at their amortized value.
(3) The general allowance for credit losses may be included in Tier 2 capital up to a maximum of .875% (2000 and 1999 – .75%) of risk-adjusted assets. On October 27, 2000, the bank entered into a five-year agreement with a AAA rated reinsurer, which requires the reinsurer to purchase up to $200 million of non-cumulative first preferred shares at the October 27, 2000 market price should the general allowance for credit losses be drawn down below a certain level. If these shares had been issued they would have qualified as Tier 1 capital.
(4) On November 26, 2001, the bank redeemed US$200 million of Non-cumulative First Preferred Shares Series I, which will reduce Tier 1 capital by the same amount. On November 8, 2001, the bank issued US$400 million of subordinated debentures, which increases Total capital by the same amount. Had these transactions taken place as at October 31, 2001, the pro forma capital ratios would have been: Tier 1 capital ratio – 8.5% and Total capital ratio – 12.0%. Using guidelines issued by the Board of Governors of the Federal Reserve System in the United States and U.S. GAAP financial information, the pro forma U.S. basis capital ratios would have been Tier 1 capital ratio – 7.9% and Total capital ratio – 11.4%.
(5) Total assets and specified off-balance sheet financial instruments, as determined by the Superintendent of Financial Institutions Canada, divided by Total capital.
(6) Using guidelines issued by the Board of Governors of the Federal Reserve System in the United States and U.S. GAAP financial information.
(7) Average total shareholders' equity divided by average total assets.
(8) Tier 1 capital divided by adjusted average assets net of the allowance for credit losses (includes gross derivative-related amounts, goodwill and deferred income taxes).

TABLE 14 Risk-adjusted assets (1)

(C$ millions, except percentage amounts)			Balance sheet amount	Predominant risk weight (2)	Risk-adjusted balance 2001	Risk-adjusted balance 2000
Balance sheet assets						
Cash resources			$ 17,535	20%	$ 1,515	$ 2,763
Securities						
Issued or guaranteed by Canadian or other OECD governments			25,559	0%	–	28
Other			54,948	100%	7,341	4,081
Residential mortgages (3)						
Insured			32,012	0%	383	375
Conventional			35,381	50%	18,511	17,008
Other loans and acceptances (3)						
Issued or guaranteed by Canadian or other OECD governments			14,134	0%	1,810	1,221
Other			133,376	100%	97,553	89,523
Other assets			46,315	0%	6,114	4,664
			$ 359,260		$ 133,227	$ 119,663
	Contract amount	Credit conversion factor	Credit equivalent amount			
Off-balance sheet financial instruments						
Credit instruments						
Guarantees and standby letters of credit						
Financial	$ 10,548	100%	$ 10,548	100%	$ 8,629	$ 8,758
Non-financial	2,843	50%	1,422	100%	1,422	1,626
Documentary and commercial letters of credit	750	20%	150	100%	148	86
Securities lending	21,377	100%	21,377	0%	393	417
Commitments to extend credit						
Original term to maturity of 1 year or less	44,179	0%	–	0%	–	–
Original term to maturity of more than 1 year	39,960	50%	19,980	100%	18,821	18,856
Uncommitted amounts	53,750	0%	–	0%	–	–
Note issuance/revolving underwriting facilities	132	50%	66	100%	66	77
	$ 173,539		$ 53,543		$ 29,479	$ 29,820
	Notional amount	Gross positive replacement cost (4)	Credit equivalent amount (5)			
Derivatives (6)						
Interest rate contracts						
Forward rate agreements	$ 95,678	$ 108	$ 543	20%	$ 114	$ 3
Swaps	697,902	17,568	21,390	20%	5,617	1,892
Options purchased	19,901	416	538	20%	123	61
	813,481	18,092	22,471		5,854	1,956
Foreign exchange contracts						
Forward contracts	546,436	6,839	12,977	20%	3,881	4,741
Swaps	74,819	1,902	5,536	20%	1,261	1,198
Options purchased	49,154	721	1,339	20%	441	452
	670,409	9,462	19,852		5,583	6,391
Other contracts (7)	37,071	1,227	3,264	50%	986	772
Total derivatives before netting	$ 1,520,961	28,781	45,587		12,423	9,119
Impact of master netting agreements		(18,832)	(24,450)		(6,339)	(3,713
Total derivatives after netting		$ 9,949	21,137		6,084	5,406
Total off-balance sheet financial instruments			$ 74,680		$ 35,563	$ 35,226
General market risk					2,257	3,475
Total risk-adjusted assets					$ 171,047	$ 158,364

(1) Using guidelines issued by the Superintendent of Financial Institutions Canada and Canadian GAAP financial information.
(2) Represents the predominant counterparty risk-weighting for that category.
(3) Amounts are shown net of allowance for loan losses.
(4) Represents the total current replacement value of all outstanding contracts in a gain position.
(5) Consists of (i) the total positive replacement value of all outstanding contracts, and (ii) an amount for potential future credit exposure.
(6) Futures and some purchased options are traded on exchanges and are subject to daily margin requirements. Such instruments are excluded from the calculation of risk-adjusted assets as they are deemed to have no additional credit risk.
(7) Comprises precious metals, commodity, equity-linked and credit derivative contracts.

Financial priority: Strong credit quality

Highlights

- Nonaccrual loans up 47% to $2.5 billion
- Nonaccrual loans to total loans of 1.36%, up from 1.00% in 2000
- Provision for credit losses up 62% to $1.1 billion
- Allocated specific provision ratio of .61%, up from .36%
- Net charge-offs ratio of .55%, versus .42% in 2000
- Allowance for credit losses up $417 million or 21% to $2.4 billion

Nonaccrual loans

Loans are generally classified as nonaccrual, meaning interest is not being accrued thereon, under circumstances described in note 1 of the consolidated financial statements on page 62.

As indicated in Table 15 below, nonaccrual loans increased $787 million from 2000 to $2,465 million at October 31, 2001. This reflects net additions of $1,912 million and charge-offs and adjustments of $1,125 million.

As shown in Table 20 on page 49, nonaccrual loans in the United States increased $481 million. Business and government loans accounted for $442 million of this increase, with $272 million of this amount relating to six corporate clients in the U.S. telecommunication sector. U.S. commercial real estate and information technology sectors also experienced higher nonaccrual loans, partially offset by a decrease in the U.S. industrial products sector. RBC Centura's nonaccrual business and government loans were $103 million.

As shown in Table 16 on page 45, nonaccrual loans in Canada were up $254 million, comprising an increase of $234 million in business and government loans (mainly the transportation and environmental and agricultural sectors) and an increase of $20 million in consumer loans. The latter resulted from a $63 million increase in the personal portfolio and a $43 million decrease in the residential mortgage portfolio.

International nonaccrual loans (excluding the United States, discussed above) were $216 million, up $52 million from last year. Most of this increase is attributable to the transportation and environmental sector.

As a percentage of related loans (before deducting the allowance for loan losses), nonaccrual loans increased to 1.36% from 1.00% in 2000.

Outlook

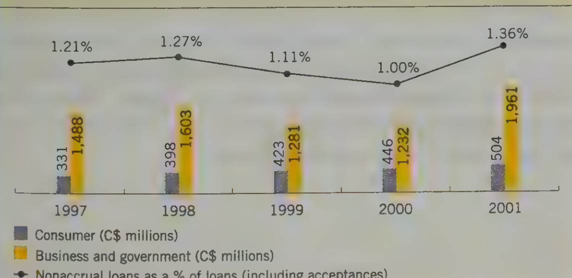
The North American economy is expected to remain weak through the first half of calendar 2002 but to begin to recover in the second half. Based on this forecast, the level of nonaccrual loans is not expected to increase significantly in fiscal 2002.

TABLE 15 Change in nonaccrual loans

(C$ millions)	2001	2000	1999	1998	1997
Nonaccrual loans at beginning of year	**$ 1,678**	$ 1,704	$ 2,001	$ 1,819	$ 2,376
Additions	**2,067**	1,146	990	1,271	705
Reductions	**(155)**	(333)	(247)	(643)	(624)
	1,912	813	743	628	81
Charge-offs and adjustments	**(1,125)**	(839)	(1,040)	(446)	(638)
Nonaccrual loans at end of year	**$ 2,465**	$ 1,678	$ 1,704	$ 2,001	$ 1,819

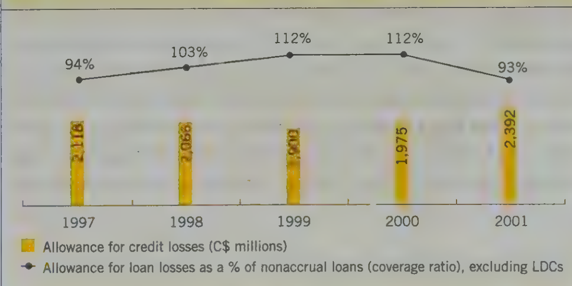
Nonaccrual loans

Business and government loans account for most of the growth in nonaccrual loans.



Allowance for credit losses

Coverage ratio near 1997 level.



Provision for credit losses

The provision for credit losses is charged to income by an amount necessary to bring the allowance for credit losses to a level determined appropriate by management, as discussed in the Allowance for credit losses section below.

The provision for credit losses was $1,119 million in 2001, up $428 million or 62% from 2000, as shown in Table 17 on page 46.

As shown in Table 20 on page 49, in the United States, the allocated specific provision increased $278 million. Well over 90% of this increase was within the business and government portfolio and relating to six corporate clients in the U.S. telecommunication sector. There was also an increase in the U.S. commercial real estate sector and reductions in the U.S. transportation and environmental and U.S. industrial products sectors.

As shown in Table 17 on page 46, in Canada, allocated specific provisions for credit losses increased $163 million. A $168 million increase in the business and government provisions resulted from increases in the small business, forest products, energy and commercial real estate sectors that more than offset a reduction in the transportation and environmental sector. A $5 million net decrease in consumer provisions resulted from a decline in personal loan provisions, partially offset by small increases in residential mortgage and credit card provisions.

The allocated specific provisions amounted to .52% of average loans (including bankers' acceptances and reverse repurchase agreements), up from .31% in 2000. Under Canadian GAAP, the specific provision for credit losses ratio was .53%, up from .32% in 2000 and compared to a goal of .30–.40% for 2001.

Outlook

In light of the weak economy expected in the first half of calendar 2002, the bank expects a ratio of specific provisions for credit losses to average loans (including reverse repurchase agreements) and bankers' acceptances of .45–.55% (using Canadian GAAP) in fiscal 2002.

Allowance for credit losses

The allowance for credit losses is maintained at a level that management believes is sufficient to absorb probable losses in the loan and off-balance sheet portfolios. The individual elements as well as the overall allowance are evaluated on a quarterly basis. This evaluation is based on continuing assessments of problem accounts, recent loss experience and changes in other factors, including the composition and quality of the portfolio, economic conditions and regulatory requirements. The allowance is increased by the provision for credit losses, which is charged to income, and decreased by the amount of charge-offs net of recoveries.

The determination of the allowance for credit losses is based upon estimates derived from historical analysis, adjusted for management's judgment relating to current assumptions. Therefore, the allowance for credit losses will inevitably differ from actual losses incurred in the future. To minimize these differences, management assesses the methodology and all significant assumptions on a regular basis.

As shown in Table 18 on page 47, the allowance for credit losses increased $417 million between 2000 and 2001.

Net charge-offs increased $263 million to $940 million in 2001. This is due to increases of $88 million in Canada and $175 million internationally. The vast majority of these increases result from charge-offs in the business and government portfolios in Canada and internationally.

The allowance for credit losses comprises four components – allocated specific, allocated country risk, allocated general and unallocated – as described in note 1 of the consolidated financial statements on page 62.

Allocated specific

Allocated specific allowances are maintained to provide for the most likely losses on loans that have become nonaccrual. Allocated specific allowances for business and government loans are established on an individual borrower basis. Allocated specific allowances for residential mortgages, personal loans and small business loans are determined on a portfolio basis using historical loss experiences on nonaccrual loans. No allocated specific allowance is maintained for credit cards, as these balances are charged off after 180 days if no payment has been received.

Allocated country risk

Allocated country risk allowances are maintained with respect to exposures to certain less developed countries (LDCs) based on an overall assessment of the outstanding exposure and underlying economic conditions in those countries.

Allocated general

The allocated general allowance reflects the best estimate of probable losses that exist within that portion of the portfolio that has not yet been specifically identified as nonaccrual. This amount is determined based on the application of statistical expected loss factors to outstanding and undrawn facilities. The expected loss factors have been determined by assessing statistical loss migrations, adjusted to reflect management's judgment regarding items that impact the quality of the portfolio.

Unallocated

The unallocated general allowance is determined through management's assessment of probable losses that are in the portfolio but not adequately captured in the determination of the allocated specific, allocated country risk and allocated general allowances. This assessment includes consideration of current economic and business conditions and regulatory requirements affecting key lending operations. It also reflects management's acknowledgement of the imprecise and subjective elements involved in modelling credit risk.

In addition to the above allowances, the bank entered into a five-year agreement in October 2000, with a AAA rated reinsurer to provide capital if exceptional losses occur in the bank's loan portfolio. The agreement requires the reinsurer to purchase up to $200 million in non-cumulative first preferred shares at the October 27, 2000 market price should the general allowance for credit losses (allocated general and unallocated allowances) be drawn below a certain level. In management's view, if these shares had been issued currently, based on existing regulatory guidelines, they would qualify as Tier 1 capital. The sale of the securities would mitigate the impact of loan losses on the capital base of the bank through the replenishment of capital.

TABLE 16 Nonaccrual loans

(C$ millions, except percentage amounts)	2001	2000	1999	1998	1997
Canada					
Atlantic provinces	$ 124	$ 115	$ 77	$ 60	$ 64
Quebec	282	198	259	261	378
Ontario	621	572	438	543	583
Prairie provinces	143	129	198	161	369
British Columbia	453	355	415	485	83
Total Canada	1,623	1,369	1,387	1,510	1,477
Consumer					
Residential mortgage	142	185	173	166	166
Personal	310	247	236	217	153
	452	432	409	383	319
Business and government					
Small business (1)	261	248	232	130	144
Agriculture (1)	111	53	62	47	46
Energy	27	–	38	6	2
Financial services	7	20	16	121	8
Commercial mortgages	22	16	25	22	43
Consumer goods	11	37	43	55	43
Commercial real estate	95	90	186	182	348
Industrial products	45	28	19	25	68
Transportation and environmental	274	185	21	13	287
Media and cable	43	36	42	29	6
Forest products	195	184	233	383	79
Automotive	18	5	1	1	–
Telecommunication	–	–	2	1	–
Information technology	11	8	13	13	12
Other	51	27	45	99	72
	1,171	937	978	1,127	1,158
Total Canada	1,623	1,369	1,387	1,510	1,477
International					
United States	626	145	41	18	42
Europe	79	46	58	59	43
Caribbean	55	48	47	62	71
Latin America	14	9	10	4	20
Asia	37	33	127	308	132
	811	281	283	451	308
LDCs	31	28	34	40	34
Total international	842	309	317	491	342
Consumer					
Residential mortgage	37	14	14	15	12
Personal	15	–	–	–	–
	52	14	14	15	12
Business and government					
Energy	3	14	23	31	14
Financial services	83	41	89	90	46
Consumer goods	19	2	18	119	115
Commercial real estate	81	4	5	12	31
Industrial products	10	83	38	76	30
Transportation and environmental	91	56	–	1	3
Automotive	33	–	5	43	4
Telecommunication	272	–	–	–	–
Information technology	76	–	–	–	–
Other	122	95	125	104	87
	790	295	303	476	330
Total international	842	309	317	491	342
Total (2), (3)	$ 2,465	$ 1,678	$ 1,704	$ 2,001	$ 1,819
Nonaccrual loans as a % of related loans (including acceptances) (4)					
Canada					
Residential mortgage	.22%	.30%	.30%	.30%	.31%
Personal	1.14	.91	.97	.99	.76
Business and government loans and acceptances	2.75	1.97	2.24	2.52	2.72
	1.18	.97	1.07	1.21	1.25
International	1.95	1.15	1.28	1.49	1.07
Total	1.36%	1.00%	1.11%	1.27%	1.21%

(1) Includes government guaranteed portions of nonaccrual loans of $95 million in small business in 2001 (2000 – $101 million; 1999 – $79 million) and $6 million in agriculture (2000 – $6 million; 1999 – $5 million). Prior to 1999, only the non-guaranteed portion was considered nonaccrual.
(2) Includes foreclosed assets of $37 million in 2001 (2000 – $20 million; 1999 – $26 million; 1998 – $28 million; and 1997 – $45 million).
(3) Past due loans not included in nonaccrual loans was $245 million in 2001.
(4) Loans in Canada include all loans booked in Canada, regardless of currency or residence of borrower.

TABLE 17 Provision for credit losses

(C$ millions, except percentage amounts)	2001	2000	1999	1998	1997
Canada					
Atlantic provinces	$ 63	$ 58	$ 32	$ 35	$ 37
Quebec	43	22	71	63	149
Ontario	398	342	52	144	13
Prairie provinces	81	64	95	53	29
British Columbia	104	40	192	132	37
Total Canada	689	526	442	427	265
Consumer					
Residential mortgage	8	–	4	9	12
Personal	265	301	172	171	114
Credit card	125	102	55	28	65
	398	403	231	208	191
Business and government					
Small business	164	105	113	48	51
Agriculture	20	4	2	4	1
Energy	17	(8)	12	1	(1)
Financial services	(9)	–	5	113	1
Commercial mortgages	7	2	8	6	18
Consumer goods	2	7	11	23	(29)
Commercial real estate	15	(17)	9	(30)	(78)
Industrial products	14	2	(10)	(6)	12
Transportation and environmental	13	56	7	(27)	(9)
Media and cable	13	12	8	4	4
Forest products	7	(36)	81	76	86
Automotive	17	–	–	–	–
Telecommunication	–	(1)	(32)	(29)	–
Information technology	3	8	8	5	1
Other	8	(11)	(11)	31	17
	291	123	211	219	74
Total Canada	689	526	442	427	265
International					
United States	377	99	45	(7)	(8)
Europe	(1)	(9)	21	10	(24)
Caribbean	(6)	3	–	3	7
Latin America	5	2	2	(2)	7
Asia	(19)	(50)	20	124	83
Australia and New Zealand	4	–	–	–	–
Total international	360	45	88	128	65
Consumer					
Residential mortgage	–	–	1	1	–
Personal	5	–	–	–	–
Credit card	2	–	–	–	–
	7	–	1	1	–
Business and government					
Energy	(8)	(2)	–	21	4
Financial services	(3)	(21)	2	36	(2)
Consumer goods	–	(7)	(10)	(5)	46
Commercial real estate	65	1	2	(2)	(1)
Industrial products	3	34	31	9	5
Transportation and environmental	8	42	–	(1)	1
Media and cable	3	–	–	–	–
Automotive	7	(8)	(2)	29	–
Telecommunication	272	–	–	–	–
Information technology	7	–	3	–	–
Other	(1)	6	61	40	12
	353	45	87	127	65
Total international	360	45	88	128	65
Allocated specific provision	1,049	571	530	555	330
Allocated country risk provision	–	–	–	(80)	–
Allocated general provision (1)	205	73	n.a.	n.a.	n.a.
Total allocated provision (1)	1,254	644	n.a.	n.a.	n.a.
Unallocated provision (1)	(135)	47	n.a.	n.a.	n.a.
Total	$ 1,119	$ 691	$ 760	$ 575	$ 380
As a % of related average loans (including acceptances)					
Canada					
Residential mortgage	.01%	–%	.01%	.02%	.02%
Personal	.94	1.12	.71	.76	.59
Credit card	2.73	2.87	2.39	1.39	1.84
Business and government loans and acceptances	.67	.28	.49	.51	.19
	.50	.39	.35	.35	.24
International	1.08	.18	.31	.37	.22
Total allocated specific provision	.61%	.36%	.34%	.36%	.23%
Total provision for credit losses	.65%	.43%	.49%	.37%	.27%
As a % of average loans (including acceptances) and reverse repurchase agreements					
Total allocated specific provision	.52%	.31%	.30%	.31%	.21%
Total provision for credit losses	.55%	.38%	.43%	.32%	.24%

(1) The allocated general provision and the unallocated provision totalled $230 million in 1999, $100 million in 1998 and $50 million in 1997. These were not separated into the allocated general and unallocated components.

TABLE 18 Allowance for credit losses

(C$ millions, except percentage amounts)	2001	2000	1999	1998	1997
Allowance at beginning of year	$ 1,975	$ 1,900	$ 2,066	$ 2,118	$ 2,235
Provision for credit losses	1,119	691	760	575	380
Charge-offs					
Canada					
Residential mortgage	(15)	(11)	(14)	(17)	(34)
Personal	(394)	(372)	(236)	(163)	(138)
Credit card	(169)	(150)	(65)	(52)	(98)
Business and government	(296)	(225)	(524)	(250)	(361)
	(874)	(758)	(839)	(482)	(631)
International, excluding LDCs					
Residential mortgage	(9)	–	–	–	–
Personal	(7)	–	–	–	–
Credit card	(2)	–	–	–	–
Business and government	(233)	(81)	(229)	(29)	(28)
LDC exposures	–	–	(4)	(325)	(10)
	(251)	(81)	(233)	(354)	(38)
	(1,125)	(839)	(1,072)	(836)	(669)
Recoveries					
Canada					
Residential mortgage	–	–	2	6	9
Personal	66	44	31	26	21
Credit card	44	48	10	24	32
Business and government	58	48	66	80	62
	168	140	109	136	124
International, excluding LDCs					
Personal	1	–	–	–	–
Business and government	16	22	5	8	17
	17	22	5	8	17
	185	162	114	144	141
Net charge-offs	(940)	(677)	(958)	(692)	(528)
Acquisition of Centura Banks, Inc.	157				
Adjustments	81	61	32	65	31
Allowance at end of year	$ 2,392	$ 1,975	$ 1,900	$ 2,066	$ 2,118
Net charge-offs (excluding LDCs) as a % of average loans	.55%	.42%	.61%	.24%	.36%
Net charge-offs as a % of average loans	.55%	.42%	.62%	.45%	.37%
Allocation of allowance (1)					
Canada					
Residential mortgage	$ 45	$ 46	$ 53	$ 50	$ 52
Personal	447	403	344	156	92
Credit card	147	88	60	–	–
Business and government	791	664	748	604	562
	1,430	1,201	1,205	810	706
International, excluding LDCs					
Residential mortgage	4	11	9	7	6
Personal	33	–	–	–	–
Credit card	5	–	–	–	–
Business and government	581	322	380	359	307
	623	333	389	366	313
Allocated allowance for loan losses (2)	2,053	1,534	1,594	n.a.	n.a.
Unallocated allowance for loan losses (2)	225	337	290	n.a.	n.a.
Total allowance for loan losses	2,278	1,871	1,884	2,026	1,769
Allowance for off-balance sheet and other items (3)	109	98	–	–	–
Allowance for tax-exempt securities	5	6	16	40	30
Allowance for country risk securities	–	–	–	–	319
Total allowance for credit losses	$ 2,392	$ 1,975	$ 1,900	$ 2,066	$ 2,118
Composition of allowance					
Allocated specific	$ 951	$ 747	$ 786	$ 1,176	$ 932
Allocated country risk	31	28	34	40	436
Allocated general (2), (4)	1,185	863	790	n.a.	n.a.
Total allocated allowance for credit losses (2)	2,167	1,638	1,610	n.a.	n.a.
Unallocated allowance for credit losses (2)	225	337	290	n.a.	n.a.
Total allowance for credit losses	$ 2,392	$ 1,975	$ 1,900	$ 2,066	$ 2,118
Percentage of loans to total loans					
Canada					
Residential mortgage	35%	37%	38%	36%	35%
Personal	15	16	16	14	14
Credit card	2	3	2	1	2
Business and government	24	28	28	28	28
	76	84	84	79	79
International	24	16	16	21	21
Total	100%	100%	100%	100%	100%
Allowance for loan losses as a % of loans (including acceptances)	1.3%	1.1%	1.2%	1.3%	1.2%
Allowance for loan losses as a % of loans (including acceptances) and reverse repurchase agreements	1.0%	1.0%	1.1%	1.1%	1.1%
Allowance for loan losses as a % of nonaccrual loans (coverage ratio), excluding LDCs	93%	112%	112%	103%	94%

(1) As a result of a change in methodology in 1999, the allowance for loan losses in 2001, 2000 and 1999 includes amounts for the allocated general allowance, which have been allocated to loan categories. These amounts total $1,076 million (2000 – $765 million; 1999 – $790 million) and have been allocated as follows: for Canada – residential mortgage $21 million (2000 – $18 million; 1999 – $11 million), personal $266 million (2000 – $207 million; 1999 – $174 million), credit card $147 million (2000 – $88 million; 1999 – $60 million), business and government $385 million (2000 – $321 million; 1999 – $370 million), and for International – residential mortgage $2 million (2000 and 1999 – nil), personal $26 million (2000 and 1999 – nil), credit card $5 million (2000 and 1999 – nil), business and government $224 million (2000 – $131 million; 1999 – $175 million). The amounts prior to 1999 do not include the allocated general allowance.

(2) The allocated general and the unallocated allowance totalled $850 million in 1998 and $750 million in 1997. These were not separated into the allocated general and unallocated components prior to October 31, 1999.

(3) Commencing in 2000, the allowance for off-balance sheet and other items was separated and reported under other liabilities. Previously, the amount was included in the allowance for loan losses.

(4) Includes the allowance for off-balance sheet and other items.

TABLE 19 Loans (1)

(C$ millions, except percentage amounts)	2001	2000	1999	1998	1997	2001	1997
Canada							
Atlantic provinces	$ 9,654	$ 9,690	$ 8,840	$ 8,052	$ 7,714	5.3%	5.2%
Quebec	13,863	16,191	14,936	14,066	14,758	7.7	9.8
Ontario	70,164	60,999	54,724	51,977	48,717	38.8	32.5
Prairie provinces	25,192	29,402	25,521	23,288	22,150	13.9	14.8
British Columbia	22,696	25,118	23,141	22,295	21,646	12.5	14.4
Total Canada	141,569	141,400	127,162	119,678	114,985	78.2	76.7
International							
United States	25,944	13,415	13,060	13,717	12,725	14.3	8.5
Europe, Middle East and Africa	7,918	6,544	6,617	13,174	11,763	4.4	7.8
Caribbean	1,856	2,059	1,502	1,573	1,274	1.0	.9
Latin America	1,680	1,842	2,309	3,875	3,493	.9	2.3
Asia	1,328	1,781	2,417	4,550	5,372	.7	3.6
Australia and New Zealand	805	771	983	825	343	.5	.2
Total international	39,531	26,412	26,888	37,714	34,970	21.8	23.3
Total loans	181,100	167,812	154,050	157,392	149,955	100.0%	100.0%
Allowance for loan losses	(2,278)	(1,871)	(1,884)	(2,026)	(1,769)		
Total	$ 178,822	$ 165,941	$ 152,166	$ 155,366	$ 148,186		
Canada							
Consumer							
Residential mortgage	$ 64,066	$ 61,444	$ 58,524	$ 55,836	$ 52,835	35.4%	35.2%
Personal	27,202	27,207	24,353	21,814	20,214	15.0	13.5
Credit card	4,110	4,666	2,666	1,945	2,324	2.3	1.6
	95,378	93,317	85,543	79,595	75,373	52.7	50.3
Business and government loans and acceptances							
Small business (2)	9,788	11,701	10,334	8,452	7,325	5.4	4.9
Agriculture	4,758	4,931	4,217	3,851	3,479	2.6	2.3
Energy	4,293	3,754	3,350	3,442	3,845	2.4	2.6
Financial services	3,010	2,218	1,567	1,718	1,976	1.7	1.2
Commercial mortgages	2,635	2,961	2,635	2,434	2,392	1.4	1.6
Consumer goods	2,447	2,874	2,086	2,802	2,787	1.3	1.9
Commercial real estate	2,325	2,594	2,400	2,523	2,872	1.3	1.9
Industrial products	2,174	2,470	2,301	2,241	2,137	1.2	1.4
Transportation and environmental	2,138	1,519	1,562	1,392	1,481	1.2	1.0
Government	1,597	1,385	2,105	1,951	1,575	.9	1.1
Media and cable (3)	1,510	1,120	1,135	959	–	.8	–
Forest products	1,275	1,362	1,151	1,728	1,976	.7	1.3
Automotive	864	673	611	698	787	.5	.5
Telecommunication	677	1,008	525	361	–	.4	–
Information technology	203	210	191	204	1,340	.1	.9
Other	6,497	7,303	5,449	5,327	5,640	3.6	3.8
	46,191	48,083	41,619	40,083	39,612	25.5	26.4
Total Canada	141,569	141,400	127,162	119,678	114,985	78.2	76.7
International							
Consumer							
Residential mortgage	3,378	1,540	718	632	534	1.9	.4
Personal	5,309	812	902	947	650	2.9	.4
Credit card	173	–	–	–	–	.1	–
	8,860	2,352	1,620	1,579	1,184	4.9	.8
Business and government loans and acceptances							
Energy	2,994	3,051	3,887	4,702	3,877	1.7	2.6
Financial services	9,347	7,912	6,937	10,896	11,359	5.2	7.6
Consumer goods	1,699	1,111	1,411	2,756	2,365	.9	1.6
Commercial real estate	4,082	271	464	862	926	2.2	.6
Industrial products	2,116	1,749	1,325	1,881	2,589	1.2	1.7
Transportation and environmental	1,571	1,487	1,975	2,296	1,762	.8	1.2
Government	128	167	773	492	622	.1	.4
Media and cable (3)	1,380	2,033	1,909	2,270	–	.8	–
Forest products	385	468	549	609	609	.2	.4
Automotive	527	513	878	2,264	1,771	.3	1.2
Telecommunication	1,558	2,244	1,206	1,756	–	.9	–
Information technology	396	433	709	1,212	4,722	.2	3.1
Other	4,488	2,621	3,245	4,139	3,184	2.4	2.1
	30,671	24,060	25,268	36,135	33,786	16.9	22.5
Total international	39,531	26,412	26,888	37,714	34,970	21.8	23.3
Total loans	181,100	167,812	154,050	157,392	149,955	100.0%	100.0%
Allowance for loan losses	(2,278)	(1,871)	(1,884)	(2,026)	(1,769)		
Total	$ 178,822	$ 165,941	$ 152,166	$ 155,366	$ 148,186		

(1) Based on residence of borrower.

(2) Small business loans in 2001 comprises the following industries: commercial real estate of $1,788 million; consumer goods of $1,665 million; industrial products of $916 million; transportation and environmental of $605 million; automotive of $434 million; forest products of $296 million; energy of $157 million; information technology of $133 million; financial services of $96 million; media and cable of $84 million; telecommunication of $45 million; and other of $3,569 million.

(3) Includes cable loans of $330 million in Canada in 2001 (2000 – $262 million; 1999 – $169 million; 1998 – $164 million; 1997 – nil) and $625 million internationally in 2001 (2000 – $1,321 million; 1999 – $850 million; 1998 – $1,221 million; 1997 – nil).

TABLE 20 U.S. loan and loan quality information (1)

(C$ millions)	Loan balance 2001	Loan balance 2000	Nonaccrual loans 2001	Nonaccrual loans 2000	Provision for credit losses 2001	Provision for credit losses 2000
Consumer						
Residential mortgage	$ 2,666	$ 845	$ 24	$ –	$ 8	$ –
Personal	4,621	78	15	–	5	–
Credit card	128	–	–	–	2	–
	7,415	923	39	–	15	–
Business and government loans and acceptances						
Energy	1,613	1,582	–	–	–	–
Financial services	4,104	4,521	30	–	7	–
Consumer goods	1,172	435	9	–	2	–
Commercial real estate	3,773	44	81	4	66	2
Industrial products	1,513	1,107	8	68	3	40
Transportation and environmental	788	469	48	56	(4)	42
Government	23	–	–	–	–	–
Media and cable (2)	1,038	1,782	–	–	3	–
Forest products	98	181	–	–	–	–
Automotive	408	221	33	–	6	–
Telecommunication	835	1,131	272	–	272	–
Information technology	299	374	76	–	7	–
Other	2,865	645	30	17	–	15
	18,529	12,492	587	145	362	99
	$ 25,944	$ 13,415	$ 626	$ 145	$ 377	$ 99

(1) Based on residence of borrower.
(2) Includes cable loans of $455 million (2000 – $1,162 million).

TABLE 21 Foreign outstandings (1)

(C$ millions, except percentage amounts)	2001	2001 % of total assets	2000	2000 % of total assets	1999	1999 % of total assets
United States – Banks	$ 7,186		$ 5,462		$ 4,208	
Government	3,834		889		486	
Other	49,172		30,034		23,865	
	60,192	16.61%	36,385	12.38%	28,559	10.45%
Western Europe						
United Kingdom – Banks	6,275		4,347		4,960	
Government	153		26		79	
Other	5,256		5,791		4,308	
	11,684	3.22	10,164	3.46	9,347	3.42
France – Banks	2,378		2,379		2,082	
Government	68		45		57	
Other	1,176		1,552		784	
	3,622	1.00	3,976	1.35	2,923	1.07
Germany – Banks	5,952		5,471		5,608	
Government	173		1		291	
Other	559		643		268	
	6,684	1.84	6,115	2.08	6,167	2.26
Netherlands	2,218	.61	1,300	.44	2,060	.75
Switzerland	1,362	.38	1,687	.57	2,044	.75
Other	5,244	1.45	4,305	1.47	4,309	1.57
	30,814	8.50	27,547	9.37	26,850	9.82
Central/Eastern Europe, Middle East and Africa	469	.13	645	.22	769	.28
Latin America						
Argentina	193	.06	324	.11	437	.16
Brazil	71	.02	75	.02	160	.06
Chile	836	.23	751	.26	640	.24
Mexico	696	.19	343	.12	665	.24
Other	174	.05	212	.07	272	.10
	1,970	.55	1,705	.58	2,174	.80
Caribbean						
Bahamas	1,520	.42	1,549	.53	1,674	.61
Other	1,902	.52	1,952	.66	1,236	.45
	3,422	.94	3,501	1.19	2,910	1.06
Asia						
Japan – Banks	53		634		390	
Government	1,663		1,599		625	
Other	988		1,000		1,256	
	2,704	.75	3,233	1.10	2,271	.83
Singapore	217	.06	336	.11	411	.15
South Korea	449	.12	338	.11	462	.17
Other	145	.04	188	.07	755	.28
	3,515	.97	4,095	1.39	3,899	1.43
Australia and New Zealand	2,335	.64	1,775	.60	2,444	.89
Allowance for loan losses (2)	(728)	(.20)	(441)	(.15)	(389)	(.14)
Total	$ 101,989	28.14%	$ 75,212	25.58%	$ 67,216	24.59%

(1) Includes the following assets with clients in a foreign country: loans, accrued interest, acceptances, interest-bearing deposits with other banks, securities, other interest-earning investments and other monetary assets including net revaluation gains on foreign exchange and derivative products. Local currency outstandings, whether or not hedged or funded by local currency borrowings, are included in country exposure outstandings. Foreign outstandings are reported based on location of ultimate risk.
(2) The allowance for loan losses includes the allocated country risk allowance and the international component of the allocated specific, the allocated general and the unallocated allowance.

Risk management

Overview

The bank manages risk strategically with a view to building shareholder value. The cornerstone of effective risk management in the bank is a strong risk management culture, which is supported by numerous strategy and policy development processes, run jointly by risk management professionals and the businesses. This partnership approach is designed to ensure strategic alignment of business, risk and resource issues.

Although the partnership approach is important, independence of the Group Risk Management function is essential. The Vice-Chairman & Chief Risk Officer, who reports directly to the President & Chief Executive Officer, heads up a global function that has been structured to reflect the evolving needs and strategic initiatives of the organization. A structure of management and board committees provides oversight of the risk management process. In 2001, the role of the Chief Compliance Officer was elevated, and the Ethics and Compliance Committee added to the risk committee structure:

Audit Committee of the Board of Directors
- Oversees financial reporting process
- Reviews internal control and audit procedures

Conduct Review and Risk Policy Committee of the Board of Directors
- Oversees policies and procedures for compliance with the self-dealing provisions of the *Bank Act* and the risk management process
- Reviews trends in risk profile
- Reviews major risk policies and counterparty, country and sectoral exposures

Group Risk Committee
- Provides strategic guidance
- Reviews overall risk policies and strategies
- Chaired by President & Chief Executive Officer

Ethics and Compliance Committee
- Provides oversight of policies and management systems to ensure adherence to the group's Guiding Principles and Code of Conduct
- Focal point for establishing ethics and compliance policies
- Chaired by Vice-Chairman & Chief Risk Officer

Risk Management Committee
- Approves policies, processes and systems for management of risk across the group
- Approves major country and sectoral risk strategies
- Reviews effect of changing conditions on business activities or risk profile
- Monitors portfolio quality
- Chaired by Vice-Chairman & Chief Risk Officer

Asset/Liability Committee
- Oversees market risk in non-trading operations, liquidity risk and capital management
- Assesses balance sheet strategies to maximize shareholder value
- Chaired by Vice-Chairman & Chief Financial Officer

Interest Rate Risk Committee
- Oversees interest rate risk management for non-trading operations

The Risk Pyramid is the primary tool to assess risk across the bank. The Risk Pyramid gives the organization a common language for evaluating risk in business reviews, new businesses, new products, new initiatives, acquisitions or alliances. The Risk Pyramid is also used to provide an organizational perspective on the roles and responsibilities of the Board of Directors and management in ensuring an effective risk management process throughout the bank. The Risk Pyramid was initially developed as a communication tool and continues to serve in that capacity as well.

Group Risk Management professionals work in partnership with the business and functional units to identify risk, which is then measured, monitored and managed. In line with a group-wide portfolio management approach, portfolio analytical techniques are employed in an effort to optimize the risk-reward profile and ensure efficient allocation of capital within the bank.

Risk Pyramid

The Risk Pyramid: An organizational perspective

Credit risk

Traditionally, credit risk is considered to be the risk of loss due to the inability or unwillingness of a counterparty to fulfill its payment obligations. However, the distinction from market risk is not clear-cut, since credit risk can also result from loss in market value due to deterioration in the financial position of a counterparty. A disciplined approach to credit risk management preserves the independence and integrity of risk assessment while being integrated into business management processes. Policies and procedures, which are communicated throughout the organization, guide the day-to-day management of credit risk exposure and are an essential part of the bank's business culture.

Subject to the overriding principle of portfolio diversification, the bank focuses on:

- Strategic and profitable client relationships, existing as well as prospective
- Industries where Canadian companies enjoy a particular competitive advantage or where the bank has developed special expertise
- Volume-based sectors that generate an attractive return for the risk (small business, public sector and agriculture)

In Canada, the bank provides a full range of services to clients across all industries. Internationally, it focuses on sectors where it has developed particular expertise (mining, energy, telecommunication & media and financial services). Increasing emphasis is placed on the risk-return balance of individual transactions as well as their impact on portfolio diversification, and particular attention is being given to the appropriate balance between "new economy" and "old economy" sectors. As the economy started to slow down in early summer, particular attention was paid to proactively evaluating the credit risk of cyclical sectors such as consumer goods, retail and automotive manufacturing. Also, the forest products sector continued to be closely managed. This loan portfolio has decreased by $170 million or 9% during 2001 to $1.7 billion, and is down from $2.6 billion as at October 31, 1997.

At October 31, 2001, loans to the telecommunication and cable sectors were $3.2 billion ($4.8 billion at October 31, 2000), of which 47% was investment grade. Telecommunication loans alone were $2.2 billion, of which 41% was investment grade.

At October 31, 2001, loans to the transportation and environmental sector were $3.7 billion ($3.0 billion at October 31, 2000), of which 62% was investment grade. During 2001, the airline industry in particular suffered from a cyclical slowdown and the impact of the September 11 terrorist attacks in the United States. Loans to airlines at October 31, 2001, were $.9 billion, of which 67% were investment grade.

The acquisition of RBC Centura has added to the bank's real estate portfolio, but the geographic separation of RBC Centura's book from the bank's traditional Canadian markets is seen as a mitigating factor. This diversification notwithstanding, the bank plans to reduce its overall $6.4 billion of outstanding loans relating to real estate at fiscal year-end by approximately $1 billion over the next two years.

The bank has stayed the course on reducing exposure to emerging markets. Credit risk in Asia, Central & Eastern Europe, the Middle East and Africa declined further, although the pace of this reduction is now slowing down. Remaining exposure in these markets is largely to subsidiaries of foreign multinationals and banks or in support of companies with significant North American operations that offer the prospect of fee-generating business in their home markets. This is especially true for Latin America where the large majority of the exposure is to the private sector and is mostly linked to the financing of specific projects, with direct government exposure being insignificant.

Portfolio composition by product continues to shift away from traditional lending, particularly in global banking relationships. Emphasis is placed on trading activities such as foreign exchange, swaps, options, equity derivatives and fixed income products. Specialized teams in Toronto, New York, London and Sydney handle these transactions. Resident independent middle offices ensure that risk guidelines are adhered to. New products or structures must be approved by Group Risk Management in Toronto following risk analysis and stress testing. Exposure control of trading products has two levels. First, individual credit lines must be approved for every counterparty. Second, overall usage of approved lines is capped by product group, counterparty location or industry. Such limits are particularly important in the financial industry, as banks account for approximately 35% and non-bank financial institutions for a further 15% of all the bank's commercial credit authorizations.

Personal & Commercial Banking

Specialization of Risk Management across all businesses within Personal & Commercial Banking continues to be a key goal for 2002. For the consumer and small business markets, a joint effort between Risk Management and Personal & Commercial Banking is underway to enhance our credit scoring strategy and tactical capability in the areas of origination, account review and collections. Benefits of this project are expected to be realized commencing in 2002. In addition, Risk Management, in conjunction with Commercial Markets, continues to develop industry expertise and enhanced portfolio management capabilities. In the mid-market, the implementation of Moody's Financial Advisor (a software program developed by Moody's Risk Management Services, utilized in financial analysis of client financial information required for the credit adjudication process for commercial and business clients) in 2002 will assist account managers in credit analysis and understanding the financial needs of their clients' businesses.

Risk Management is continuously improving management information systems in order to enhance portfolio management capabilities and improve credit processes.

Corporate & Investment Banking

The bank uses a strategic approach for managing the risk of the large corporate client base. This approach integrates comprehensive portfolio management techniques with forward-looking strategic limits for industry sectors and sub-sectors, countries and clients based on risk analysis, business opportunities and the bank's risk appetite. The asset portfolio is continuously managed through both periodic and event-related formal reviews of the risk and reward profile of the existing client base and potential new opportunities, and a comprehensive portfolio modelling process, which rebalances the bank's exposure in global industry sectors and countries. During the year, the frequency and the depth of analysis was enhanced for risk rating our borrowers and counterparties.

Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed processes, technology or human performance, or from external events. Its impact can be financial loss, loss to reputation, loss of competitive position or regulatory censure.

While operational risk can never be fully eliminated, the bank endeavours to minimize it by ensuring that the appropriate infrastructure, controls, systems, and trained and competent people are in place throughout the bank. Dedicated professionals are in place to identify and implement what management believes to be best industry practices in the area of operational risk management.

The bank has been proactive in developing and implementing new methodologies for the identification, assessment and management of operational risk. A number of in-depth operational risk self-assessments were conducted in all segments during 2001, resulting in action taken by the businesses to manage their risks more proactively. Operational risk capital has been allocated to all major business units, based on an assessment of each unit's risk exposure.

The focus in 2002 will be on an enterprise-wide rollout of operational risk self-assessment tools and processes, further development of operational risk quantification methodologies, and staying at the forefront of best risk management practices.

eBusiness risk

eBusiness brings together different cultures, industry practices, processes, talents and complex value chains. As eBusiness continues to innovate, re-invent and consolidate, the bank is keeping a watchful eye on new developments and the pace of change. Among our priorities is the communication of eBusiness risk management best practices and making risk management and due diligence tools available throughout the bank.

Security, privacy and the management of technology are the risks most commonly cited as eBusiness risks and the trends in these areas are closely monitored and managed within the bank. Some unique and potentially high risks on which we focus include strategic/business planning, business continuity, change management, recruitment and retention of specialized human resource skills and competencies, and knowledge management. By establishing a centre of expertise in eBusiness risk, the bank has positioned itself as a leader and model of eBusiness risk management.

Market risk

Market risk is the risk of loss that results from changes in interest rates, foreign exchange rates, equity prices and commodity prices.

Interest rate risk

Interest rate risk is the potential adverse impact on the bank's earnings and economic value due to changes in interest rates. The key sources of interest rate risk to which the bank is exposed are repricing mismatch risk, credit spread risk, basis risk and options risk. Repricing mismatch risk arises when there are mismatches or gaps in the amount of assets, liabilities and off-balance sheet instruments that mature or reprice in a given period, primarily due to clients' differing term preferences. Credit spread risk arises when there are changes in the credit spread that result from changes in the market's perception of general or specific credit quality and liquidity. Basis risk arises when the differentials between various indices upon which the bank prices its products change. Options risk arises from the effect of interest rate movements and changes in volatilities on the market value of the options within the bank's portfolios.

Foreign exchange rate risk

Foreign exchange rate risk is the potential adverse impact on the bank's earnings and economic value due to currency rate movements. The bank is exposed to foreign exchange rate risk in both the spot and forward foreign exchange markets and in the options market. Spot foreign exchange risk arises when the total present value of assets in any currency does not equal the total present value of liabilities in that currency. Forward foreign exchange risk arises when, for a given currency, the maturity profile of forward purchases differs from the maturity profile of forward sales. Options risk arises from the effect of interest rate and exchange rate movements and changes in volatilities on the market value of the options within the bank's portfolios.

Equity risk

Equity risk is the potential adverse impact on the bank's earnings due to movements in individual equity prices or general movements in the value of the stock market. The bank is exposed to equity risk from the buying and selling of equities as a principal in its brokerage business. Equity risk also results from the bank's trading activities, including the provision of tailored equity derivative transactions to clients, arbitrage trading and proprietary trading.

Commodity risk

Commodity risk is the potential adverse impact on the bank's earnings and economic value due to movements in commodity prices. Commodity risk arises primarily in the bank's trading portfolio through exposure to movements in the price of precious metals. However, there is minimal exposure to commodity risk in the bank's trading portfolio because the bank does not normally hold unhedged positions in the portfolio.

The level of market risk to which the bank is exposed varies continually, reflecting changing market conditions, expectations of future price and market movements and the composition of the bank's trading and non-trading portfolios. The bank has established risk management policies and limits for its trading and asset/liability management activities that allow it to monitor and control the exposure to market risk resulting from these activities.

Trading activities

The market risk associated with trading activities is a result of market-making, positioning and sales and arbitrage activities in the interest rate, foreign exchange, equity and commodity markets. The bank's trading operation has a primary role of acting as a market-maker or jobber, executing transactions that meet the financial requirements of its clients, and transferring the market risks to the broad financial market. The bank also acts as principal and takes market risk proprietary positions within the authorizations granted by the bank's board. This risk is managed primarily through a Value-At-Risk (VAR) methodology.

VAR is a generally accepted risk measurement concept that uses statistical models and historical market price information to estimate within a given level of confidence the maximum loss in market value that the bank would experience in its trading portfolios from an adverse one-day movement in market rates and prices. The bank's VAR measure is based on a 99% confidence level and is an estimate of the maximum potential trading loss in 99 out of every 100 days. The bank uses an historical simulation of the previous 500 trading day scenarios to determine VAR for its trading portfolio. The graph on page 53 shows the daily net trading revenue compared to the global trading VAR amounts for the year ended October 31, 2001. Net trading revenue is defined as the sum of the mark-to-market adjustments booked on trading positions and net interest income accrued from trading assets. During fiscal 2001, the bank experienced only two days of trading losses, and it did not experience a single day with trading losses in excess of the VAR estimate for that day.

TABLE 22 Market risk measures – Trading activities (1)

	2001				2000			
(C$ millions)	Year-end	High	Average	Low	Year-end	High	Average	Low
Global VAR by major risk category								
Equity	$ 8	$ 16	$ 10	$ 6	$ 14	$ 22	$ 13	$ 6
Foreign exchange and commodity	2	6	3	1	4	11	5	2
Interest rate	3	9	4	2	7	9	5	3
Global VAR (2)	$ 8	$ 18	$ 11	$ 6	$ 18	$ 24	$ 16	$ 10

(1) Amounts are presented on a pre-tax basis and represent one-day VAR at a 99% confidence level.
(2) Global VAR reflects the correlation effect from each of the risk categories through diversification.

During the year, the bank expanded the scope of its interest rate products to include credit derivatives. Credit derivatives allow trading of credit risk separate from an underlying instrument. For example, credit exposure to a company can be acquired or divested through a credit derivative without actually owning a loan or bond issued by the company. Credit derivatives are one of the fastest growing over-the-counter trading products. Credit derivatives are provided to institutional and corporate clients and are also used by the bank in the management of its loan portfolio.

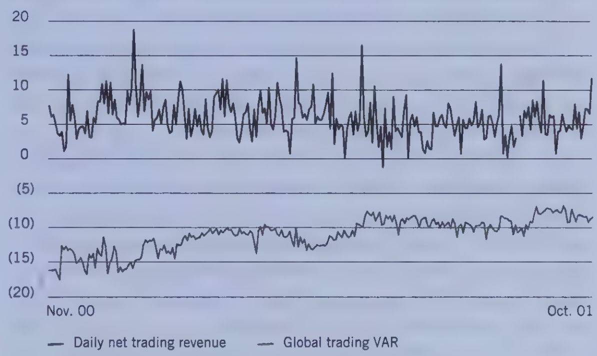
Table 22 above shows the year-end, high, average and low VAR by major risk category for the bank's combined trading activities for the years ended October 31, 2001 and 2000. The table also shows the bank's global VAR, which incorporates the effects of correlation in the movements of interest rates, exchange rates, equity prices and commodity prices and the resulting benefits of diversification within the bank's trading portfolio. As the table illustrates, the bank's average VAR in 2001 declined to $11 million from an average of $16 million in 2000, reflecting a reduction in risk mainly in the equity trading portfolio.

The bank also performs analysis on the potential trading losses due to stress events as a supplementary control on its market risk exposure. This is accomplished through applying historical and internally developed scenarios to the daily trading positions to monitor the effect of extreme market movements on the value of its portfolio.

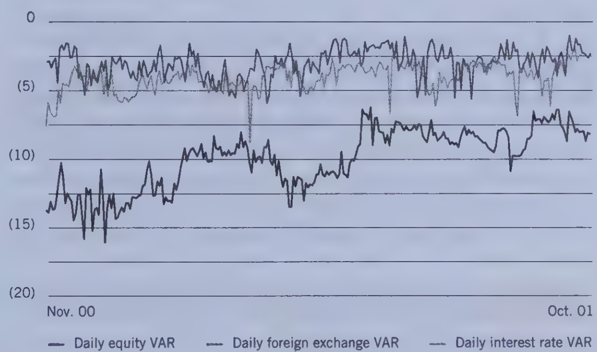
The Group Risk Management function, which is independent of the trading operations, is responsible for the daily monitoring of global trading risk exposures. The function uses the bank's VAR methodology to compare actual exposures to the limits established, to assess global risk-return trends and to alert senior management of adverse trends or positions. The function also develops and implements comprehensive risk measurement policies and risk limits that apply to trading activities.

Management recognizes that VAR is not an absolute measure of market risk and has its limitations since it is based on historical information only. In such circumstances, management implements other limits in order to control market liquidity risks, net position gap, term and volume for all products. This comprehensive market risk management framework is designed to ensure that an appropriate diversification of risks through policies is adopted on a global basis.

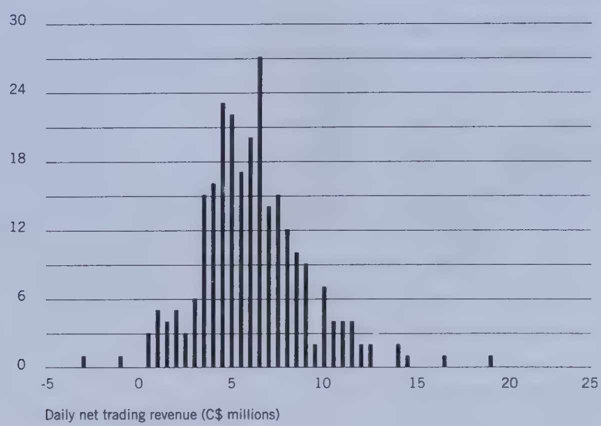
DAILY NET TRADING REVENUE VS GLOBAL TRADING VAR
(C$ millions)



GLOBAL VAR BY MAJOR RISK CATEGORY
(C$ millions)



HISTOGRAM OF DAILY NET TRADING REVENUE
(number of days)



Asset/liability management activities of the bank's non-trading portfolio

Core banking activities, such as deposit taking and lending, expose the bank to market risk, mostly in the form of interest rate risk. The risk is managed within the economic value of equity risk and net interest income risk limits approved by the Conduct Review & Risk Policy Committee of the Board of Directors. The risk limits are based on an immediate and sustained 200 basis point parallel movement in rates across all maturities. Economic value risk measures the adverse net impact on the present value of assets and liabilities and off-balance sheet financial instruments. The limit for economic value of equity risk is $1.5 billion, which corresponds to about 10% of the bank's common equity. This represents a limit increase of $400 million relative to the prior year and is attributable to net common stock issuance of $3.4 billion. Net interest income risk measures the adverse impact on net interest income over the next 12 months. The net interest income risk limit is $300 million.

The Corporate Treasury function actively monitors and manages the Canadian domestic and U.S. non-trading books. It also oversees a limited number of authorized units that manage their interest rate exposure at a decentralized level within established risk limits.

In managing the Canadian domestic and U.S. non-trading books, the goal is to achieve a balance between reducing risk from adverse movements in interest rates and enhancing net interest income. To achieve this, derivative instruments, primarily interest rate swaps, are used to adjust the risk profile of the book taking into account the shape of the yield curve, expected changes in the level of interest rates and the current level of risk being carried. When appropriate, the bank will also purchase options to hedge some of the embedded options inherent in certain deposit and loan banking products. Embedded options allow bank clients to alter the maturity profile of their deposit or loan products. The most prevalent types of embedded options are early redemption features in certain term deposit products and prepayment options in some loan products.

The primary analytical techniques used by the bank to measure the economic value of equity risk and net interest income risk and to manage non-trading interest rate risk are scenario analysis and starting position analysis. Scenario analysis is forward looking, and enables the bank to forecast net interest income and analyze the impact under numerous economic and interest rate scenarios. It incorporates assumptions about pricing strategies, volume and mix of new business, expected changes in the level of interest rates, changes in the shape of the yield curve and other factors such as the impact of embedded options. Starting position analysis provides the framework for measuring economic value and net interest income risk exposures against limits at a point in time. The results of the scenario and starting position analysis assist in determining the risk-return tradeoffs of potential hedging and optimization strategies. This allows the bank to achieve a balance between enhancing net interest income and reducing the risk of lower earnings from adverse movements in interest rates.

Table 23 below presents the potential impact of a 100 and 200 basis point increase and decrease on the bank's economic value and on current earnings from changes in interest rates on the non-trading portfolio of the bank. These measures are based on its interest rate sensitivity position at October 31, 2001, including all repricing assumptions. These measures assume that no further hedging is undertaken and that all assets and liabilities reprice by the defined amounts. The bank has defined a risk neutral balance sheet as one where net residual assets representing equity are evenly invested over a five-year horizon. As a result of this decision, the bank's interest rate risk profile is one that is slightly asset sensitive while maintaining a duration of equity at about 2.5 years. This is characteristic of a bank operating in an interest rate "safety zone" for which economic value and net interest income risk measures move in opposite directions for the same parallel shift of the yield curve. In the safety zone, net interest income declines and economic value increases for a decline in interest rates and the opposite is true for an increase in interest rates.

The interest rate sensitivity position at October 31, 2001, including all repricing assumptions, reflects a view on future interest rate movements relative to the current yield curve. The risk position has been and is currently being actively managed to reflect the historically low interest rates since mid-September. The bank's view is that although short-term interest rates may decline further, medium- and long-term rates will remain within the current range until there is evidence of economic recovery. While some near-term volatility is possible, the bank is positioning itself for a fairly stable interest rate environment until early calendar 2002.

All interest rate measures in this section are based upon the bank's interest rate exposures at a specific time. The exposures change continually as a result of the bank's day-to-day business activities and its risk management initiatives.

TABLE 23 **Market risk measures – Non-trading activities**

	2001		2000	
(C$ millions)	**Economic value of equity risk (1)**	**Net interest income risk (1)**	Economic value of equity risk (1)	Net interest income risk (1)
100bp increase	**$ (390)**	**$ 96**	$ (306)	$ 71
100bp decrease	**256**	**(108)**	241	(84)
200bp increase	**$ (842)**	**$ 179**	$ (628)	$ 129
200bp decrease	**466**	**(294)**	473	(170)

(1) Amounts are presented on a pre-tax basis as at October 31.

Liquidity risk

The objective of liquidity management is to ensure that the bank has the ability to generate sufficient cash or its equivalents, in a timely and cost-effective manner, to meet its commitments as they fall due. Liquidity management is critical in protecting the bank's capital, maintaining market confidence and ensuring that the bank can expand into profitable business opportunities.

The bank's liquidity management framework includes policies for several key elements, such as minimum levels of liquid assets to be held at all times. The bank uses liquid assets and repurchase and reverse repurchase agreements when managing its short-term liquidity. Liquid assets and assets purchased under reverse repurchase agreements (before pledging, see next paragraph) totalled $136.9 billion or 38% of total assets at October 31, 2001, as compared to $100.7 billion or 34% of total assets at October 31, 2000. Canadian dollar liquid assets are primarily marketable securities, and much of the bank's foreign currency liquid assets are issued by highly rated foreign banks.

Policies are also in place to ensure that the bank is able to meet potential pledging requirements that may arise. At October 31, 2001, $9.5 billion of assets had been pledged as collateral, plus another $20.9 billion and $16.0 billion in obligations related to assets sold under repurchase agreements and securities sold short, respectively. For further details, see note 15 of the consolidated financial statements.

Another key element of the liquidity management framework is cash flow management. There are limits on the maximum net outflow of funds for specified time periods, particularly for key short-term time horizons. Scenario analysis is performed periodically on the assumed behaviour of cash flows under varying conditions to assess funding requirements and is updated as needed to reflect changing conditions.

The bank's framework also incorporates liquidity contingency planning to assess the nature and volatility of funding sources and to determine alternatives to these sources. The contingency plan would be activated to ensure that the bank's funding commitments could be met in the event of general market disruption or adverse economic conditions. The plan is reviewed, tested and updated at least annually.

Strong capital ratios, credit quality and core earnings are essential to retaining high credit ratings and consequently, cost-effective access to funding. These items, along with other indicators, are monitored on an ongoing basis as part of the liquidity management process.

Funding diversification is another key element of liquidity management. Diversification is achieved by strategically varying depositor type and country of origin, geographic locations and legal entities, term, funding market, and instrument. Core deposits, which are provided largely by consumers, and capital, are principal sources. For information on capital activity, see pages 39 to 42. Other sources include money market funding, term funding and asset securitization.

As shown in Table 24 below, deposits from consumers remained at 43% of total deposits, up $11.7 billion or 13% from October 31, 2000, including RBC Centura's addition of $8.2 billion. Business and government deposits as a percentage of total deposits remained at 46%. These were up $13.1 billion or 14% year-over-year, of which RBC Centura contributed $3.4 billion. Consumer deposits represent the prime source of Canadian dollar deposits, while foreign currency deposits are primarily from large corporations and foreign banks, including central banks.

During 2001, the bank continued to broaden its term funding base by issuing $2.1 billion of senior deposit notes in various currencies and markets. It also issued $1.0 billion of subordinated debentures, $750 million of innovative Tier 1 capital and $250 million of preferred shares, as outlined on page 40. The securitization of credit card receivables funded by medium-term notes contributed $1.0 billion of funding during the year.

In October, the bank offered subordinated notes for US$400 million. This offering closed on November 8, 2001. Denominating the notes in U.S. dollars and issuing in Europe allowed the bank to better align the currency composition of its capital base with that of its asset base, and further diversified its investor base for this type of security.

The bank also diversified its funding by participating in the Canada Mortgage and Housing Corporation's newly developed Canada Mortgage Bond program. During the year, the bank securitized $800 million of government guaranteed residential mortgages and initially sold $723 million of those securities.

These alternative activities have strengthened the bank's domestic and foreign funding presence. Their future uses and those of new funding sources will continue to be assessed in light of their impact on traditional funding sources and relative benefits.

TABLE 24 **Deposits**

				2001	2000	1999
(C$ millions)	Demand	Notice	Term	**Total**	Total	Total
Personal	$ 10,835	$ 28,945	$ 61,601	**$ 101,381**	$ 89,632	$ 87,359
Business and government	28,754	12,122	66,609	**107,485**	94,379	86,223
Bank	3,966	411	22,444	**26,821**	22,226	14,315
	$ 43,555	$ 41,478	$ 150,654	**$ 235,687**	$ 206,237	$ 187,897
Non-interest-bearing						
Canada				**$ 22,397**	$ 22,011	$ 16,876
United States				**1,918**	151	–
Other international				**543**	712	666
Interest-bearing						
Canada				**118,161**	116,113	112,430
United States				**25,169**	11,608	9,451
Other international				**67,499**	55,642	48,474
				$ 235,687	$ 206,237	$ 187,897

2000 compared to 1999

The following discussion and analysis provides a comparison of the bank's results of operations for the years ended October 31, 2000 and 1999. This discussion should be read in conjunction with the consolidated financial statements and related notes on pages 57 to 84. This portion of the management's discussion and analysis is based on amounts reported in the consolidated financial statements and does not exclude special items.

Business segment results

Personal & Commercial Banking's net income increased 35% to $1,115 million in 2000 from $827 million in 1999. Return on common equity increased 270 basis points to 20.5%. The efficiency ratio improved 640 basis points to 58.7% in 2000 due to a highly effective cost-reduction program.

Net income in Insurance was down 5% to $103 million in 2000. Return on common equity decreased from 56.0% to 38.6%.

Wealth Management's net income was up 52% from 1999 to $413 million. Return on common equity declined by 990 basis points to 47.8% due to the higher allocation of capital for operational and other risks.

Corporate & Investment Banking's net income increased 67% to $502 million. Return on common equity improved by 550 basis points to 20.8%.

Transaction Processing's net income was up 25% to $134 million. Return on common equity increased 450 basis points to 32.2%.

Net interest income

Net interest income increased 3% to $5.3 billion in 2000 from $5.1 billion in 1999 partially due to higher volumes of interest-bearing assets, particularly retail loans.

Non-interest revenue

Non-interest revenue increased 22% to $6.7 billion in 2000, accounting for 56% of total revenue.

Non-interest expenses

Non-interest expenses increased 7% to $7.6 billion.

Taxes

The bank's income taxes for 2000 were $1.4 billion, for an effective income tax rate of 38.8%. Income taxes were $1.0 billion in 1999, while the effective income tax rate was 36.0%.

Provision for credit losses

The provision for credit losses decreased 9% to $691 million in 2000 from $760 million in 1999. The total allowance for loan losses was $1.9 billion or 1.1% of total loans (including acceptances) versus 1.2% in 1999.

Quarterly financial information

Selected financial information for the eight most recently completed quarters is shown on page 90.

/ Consolidated financial statements

Management's responsibility for financial reporting

The accompanying consolidated financial statements of Royal Bank of Canada were prepared by management, which is responsible for the integrity and fairness of the information presented, including the many amounts that must of necessity be based on estimates and judgments. These consolidated financial statements were prepared in accordance with United States generally accepted accounting principles. Financial information appearing throughout this Annual Report is consistent with these consolidated financial statements. Management has also prepared consolidated financial statements for Royal Bank of Canada in accordance with Canadian generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada, and these consolidated financial statements have also been provided to shareholders.

In discharging its responsibility for the integrity and fairness of the consolidated financial statements and for the accounting systems from which they are derived, management maintains the necessary system of internal controls designed to ensure that transactions are authorized, assets are safeguarded and proper records are maintained. These controls include quality standards in hiring and training of employees, policies and procedures manuals, a corporate code of conduct and accountability for performance within appropriate and well-defined areas of responsibility.

The system of internal controls is further supported by a compliance function, which ensures that the bank and its employees comply with securities legislation and conflict of interest rules, and by an internal audit staff, which conducts periodic audits of all aspects of the bank's operations.

The Board of Directors oversees management's responsibilities for financial reporting through an Audit Committee, which is composed entirely of directors who are neither officers nor employees of the bank. This Committee reviews the consolidated financial statements of the bank and recommends them to the board for approval. Other key responsibilities of the Audit Committee include reviewing the bank's existing internal control procedures and planned revisions to those procedures, and advising the directors on auditing matters and financial reporting issues. The bank's Compliance Officer and Chief Internal Auditor have full and unrestricted access to the Audit Committee.

At least once a year, the Superintendent of Financial Institutions Canada makes such examination and enquiry into the affairs of the bank as deemed necessary to ensure that the provisions of the *Bank Act*, having reference to the safety of the depositors and shareholders of the bank, are being duly observed and that the bank is in sound financial condition.

Deloitte & Touche LLP and PricewaterhouseCoopers LLP, independent auditors appointed by the shareholders of the bank upon the recommendation of the Audit Committee, have performed an independent audit of the consolidated financial statements and their report follows. The shareholders' auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings.

Gordon M. Nixon
President & Chief Executive Officer

Peter W. Currie
Vice-Chairman & Chief Financial Officer

Toronto, November 20, 2001

Auditors' report

To the shareholders of Royal Bank of Canada

We have audited the consolidated balance sheet of Royal Bank of Canada as at October 31, 2001 and 2000, and the consolidated statements of income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended October 31, 2001. These consolidated financial statements are the responsibility of the bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the bank as at October 31, 2001 and 2000, and the results of its operations and its cash flows for each of the years in the three-year period ended October 31, 2001, in accordance with United States generally accepted accounting principles.

We also reported separately on November 20, 2001, to the shareholders of the bank on our audit, conducted in accordance with Canadian generally accepted auditing standards, where we expressed an opinion without reservation on the October 31, 2001 and 2000, consolidated financial statements, prepared in accordance with Canadian generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada.

Deloitte & Touche LLP
PricewaterhouseCoopers LLP
Chartered Accountants

Toronto, November 20, 2001

Consolidated balance sheet

As at October 31 (C$ millions)	2001	2000
Assets		
Cash resources		
Cash and due from banks	$ 1,792	$ 947
Interest-bearing deposits with other banks	15,724	15,461
	17,516	16,408
Securities		
Trading account (includes $3,649 pledged in 2001)	58,413	48,827
Available for sale (includes $2,559 pledged in 2001)	22,687	13,936
Held to maturity	–	698
	81,100	63,461
Assets purchased under reverse repurchase agreements	35,870	18,303
Loans		
Residential mortgage	67,444	62,984
Personal	32,511	28,019
Credit card	4,283	4,666
Business and government loans and acceptances	76,862	72,143
	181,100	167,812
Allowance for loan losses	(2,278)	(1,871)
	178,822	165,941
Other		
Derivative-related amounts	28,642	19,334
Premises and equipment	1,598	1,216
Goodwill	4,952	693
Other intangibles	619	208
Other assets	13,364	8,490
	49,175	29,941
	$ 362,483	$ 294,054
Liabilities and shareholders' equity		
Deposits		
Canada		
Non-interest-bearing	$ 22,397	$ 22,011
Interest-bearing	118,161	116,113
International		
Non-interest-bearing	2,461	863
Interest-bearing	92,668	67,250
	235,687	206,237
Other		
Acceptances	9,923	11,628
Obligations related to securities sold short	16,037	12,873
Obligations related to assets sold under repurchase agreements	20,864	9,005
Derivative-related amounts	29,448	18,574
Other liabilities	24,178	15,912
	100,450	67,992
Subordinated debentures	6,662	5,825
Non-controlling interest in subsidiaries	1,479	703
Shareholders' equity		
Capital stock		
Preferred	1,990	2,001
Common (shares issued and outstanding – 674,020,927 and 602,397,936)	6,959	3,074
Retained earnings	9,311	8,314
Accumulated other comprehensive income	(55)	(92)
	18,205	13,297
	$ 362,483	$ 294,054

Gordon M. Nixon
President & Chief Executive Officer

Robert B. Peterson
Director

Consolidated statement of income

For the year ended October 31 (C$ millions)	2001	2000	1999
Interest income			
Loans	$ 12,032	$ 11,538	$ 10,386
Trading account securities	2,143	1,519	1,197
Available for sale and held to maturity securities	1,138	1,150	998
Assets purchased under reverse repurchase agreements	1,163	1,078	893
Deposits with banks	831	824	726
	17,307	16,109	14,200
Interest expense			
Deposits	8,712	9,057	7,636
Other liabilities	1,693	1,429	1,161
Subordinated debentures	405	344	286
	10,810	10,830	9,083
Net interest income	6,497	5,279	5,117
Provision for credit losses	1,119	691	760
Net interest income after provision for credit losses	5,378	4,588	4,357
Non-interest revenue			
Capital market fees	1,870	1,810	1,209
Trading revenues	1,820	1,540	1,106
Investment management and custodial fees	895	684	547
Deposit and payment service charges	887	756	688
Mutual fund revenues	546	528	479
Foreign exchange revenue, other than trading	300	299	243
Card service revenues	290	420	362
Insurance revenues	263	151	174
Credit fees	237	212	189
Securitization revenues	125	104	220
Gain (loss) on sale of securities	(128)	(11)	28
Gain from divestitures	445	–	–
Other	605	187	246
	8,155	6,680	5,491
Non-interest expenses			
Human resources	5,696	4,695	4,096
Occupancy	716	570	564
Equipment	713	664	677
Communications	679	695	699
Professional fees	411	267	274
Amortization of goodwill and other intangibles	288	91	70
Other	1,138	646	761
	9,641	7,628	7,141
Net income before income taxes	3,892	3,640	2,707
Income taxes	1,350	1,412	974
Net income before non-controlling interest	2,542	2,228	1,733
Non-controlling interest in net income of subsidiaries	107	20	8
Net income	$ 2,435	$ 2,208	$ 1,725
Preferred share dividends	135	134	157
Net income available to common shareholders	$ 2,300	$ 2,074	$ 1,568
Average number of common shares (in thousands)	641,516	606,389	626,158
Earnings per share (in dollars)	$ 3.58	$ 3.42	$ 2.50
Average number of diluted common shares (in thousands)	647,216	609,865	632,305
Diluted earnings per share (in dollars)	$ 3.55	$ 3.40	$ 2.48

Consolidated statement of changes in shareholders' equity

For the year ended October 31 (C$ millions)	2001	2000	1999
Preferred shares			
Balance at beginning of year	$ 2,001	$ 1,973	$ 2,110
Issued	250	–	296
Redeemed for cancellation	(295)	–	(393)
Issuance costs, net of related income taxes	(3)	–	(9)
Translation adjustment on shares denominated in foreign currency	37	28	(31)
Balance at end of year	1,990	2,001	1,973
Common shares			
Balance at beginning of year	3,074	3,063	2,923
Issued	4,009	109	192
Issuance costs, net of related income taxes	(12)	–	–
Purchased for cancellation	(112)	(98)	(52)
Balance at end of year	6,959	3,074	3,063
Retained earnings			
Balance at beginning of year	8,314	7,495	6,803
Net income	2,435	2,208	1,725
Preferred share dividends	(135)	(134)	(157)
Common share dividends	(897)	(689)	(588)
Premium paid on common shares purchased for cancellation	(397)	(562)	(281)
Issuance costs, net of related income taxes	(9)	(4)	(7)
Balance at end of year	9,311	8,314	7,495
Accumulated other comprehensive income, net of related income taxes			
Unrealized gains and losses on available for sale securities	190	(56)	(85)
Unrealized foreign currency translation gains and losses, net of hedging activities	(38)	(36)	(38)
Gains and losses on derivatives designated as cash flow hedges	(190)	–	–
Additional pension obligation	(17)	–	–
	(55)	(92)	(123)
Shareholders' equity at end of year	$ 18,205	$ 13,297	$ 12,408

Comprehensive income, net of related income taxes			
Net income	$ 2,435	$ 2,208	$ 1,725
Other comprehensive income			
Change in unrealized gains and losses on available for sale securities	246	29	(141)
Change in unrealized foreign currency translation gains and losses	473	(2)	(205)
Impact of hedging unrealized foreign currency translation gains and losses	(475)	4	201
Cumulative effect of initial adoption of FAS 133	60	–	–
Change in gains and losses on derivatives designated as cash flow hedges	(250)	–	–
Additional pension obligation	(17)	–	–
Total comprehensive income	$ 2,472	$ 2,239	$ 1,580

Consolidated statement of cash flows

For the year ended October 31 (C$ millions)	2001	2000	1999
Cash flows from operating activities			
Net income	$ 2,435	$ 2,208	$ 1,725
Adjustments to determine net cash provided by (used in) operating activities			
Provision for credit losses	1,119	691	760
Depreciation	387	369	389
Restructuring	91	–	153
Amortization of goodwill and other intangibles	288	91	70
Gain on sale of premises and equipment	(42)	(4)	(95)
Gain from divestitures	(445)	–	–
Change in accrued interest receivable and payable	(375)	110	(81)
Net loss (gain) on sale of available for sale securities	128	11	(28)
Changes in operating assets and liabilities			
Deferred income taxes	139	(206)	(27)
Current income taxes payable	(460)	(434)	487
Unrealized gains and amounts receivable on derivative contracts	(9,299)	(4,183)	15,262
Unrealized losses and amounts payable on derivative contracts	10,872	3,355	(14,151)
Trading account securities	(8,707)	(13,539)	(5,700)
Obligations related to securities sold short	3,009	(5,867)	(1,748)
Other	(4,945)	(215)	7,877
Net cash provided by (used in) operating activities	(5,805)	(17,613)	4,893
Cash flows from investing activities			
Change in loans	(950)	(11,728)	1,077
Proceeds from the maturity of held to maturity securities	–	500	411
Purchases of held to maturity securities	–	(114)	(405)
Proceeds from sale of available for sale securities	12,542	11,033	5,163
Proceeds from the maturity of available for sale securities	14,021	16,269	10,428
Purchases of available for sale securities	(28,059)	(24,885)	(20,208)
Change in interest-bearing deposits with other banks	(116)	5,125	(6,596)
Net acquisitions of premises and equipment	(397)	(293)	(255)
Net proceeds from sale of real estate	57	–	815
Change in assets purchased under reverse repurchase agreements	(17,474)	1,969	(365)
Net cash used in acquisition of subsidiaries	(3,120)	(323)	(129)
Net proceeds on divestitures	478	–	–
Net cash used in investing activities	(23,018)	(2,447)	(10,064)
Cash flows from financing activities			
Issue of RBC Trust Capital Securities (RBC TruCS)	750	650	–
Increase in domestic deposits	2,434	8,818	5,773
Increase in international deposits	15,690	9,405	2,119
Issue of subordinated debentures	1,025	1,200	700
Subordinated debentures matured	(42)	(20)	(123)
Subordinated debentures redeemed	(538)	–	–
Issue of preferred shares	250	–	287
Preferred shares redeemed for cancellation	(295)	–	(400)
Issuance costs	(24)	(4)	–
Issue of common shares	657	59	17
Common shares redeemed for cancellation	(509)	(660)	(333)
Dividends paid	(972)	(791)	(735)
Change in securities sold under repurchase agreements	11,629	(391)	(1,868)
Change in liabilities of subsidiaries	(387)	281	(215)
Net cash provided by financing activities	29,668	18,547	5,222
Net change in cash and due from banks	845	(1,513)	51
Cash and due from banks at beginning of year	947	2,460	2,409
Cash and due from banks at end of year	$ 1,792	$ 947	$ 2,460

	2001	2000	1999
Supplemental disclosure of cash flow information			
Amount of interest paid in year	$ 11,149	$ 10,698	$ 8,989
Amount of income taxes paid in year	$ 1,443	$ 2,007	$ 542

NOTE 1 Significant accounting policies

The accompanying consolidated financial statements are stated in Canadian dollars, the currency of the country in which the bank is incorporated and principally operates. These consolidated financial statements are prepared in accordance with United States generally accepted accounting principles (GAAP) and prevailing practices within the banking industry in that country. The bank has also prepared consolidated financial statements in accordance with Canadian GAAP and these have been provided to shareholders.

GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Actual results could differ from those estimates.

Certain comparative amounts have been reclassified to conform with the current year's presentation.

The significant accounting policies followed in the preparation of these consolidated financial statements are summarized below:

Basis of consolidation

The consolidated financial statements include the assets and liabilities and results of operations of all subsidiaries after elimination of intercompany transactions and balances. The bank has accounted for the acquisition of subsidiaries using the purchase method. The equity method is used to account for investments in associated corporations or joint ventures in which the bank has significant influence or exercises joint control, respectively. These investments are reported in Other assets. The bank's share of earnings, and gains and losses realized on dispositions of these investments are included in Non-interest revenue.

Translation of foreign currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing on the balance sheet date; income and expenses are translated at average rates of exchange for the year.

Unrealized foreign currency translation gains and losses on investments in foreign branches, subsidiaries and associated corporations where the functional currency is other than the Canadian dollar are recorded in Other comprehensive income. On disposal of such investments, the accumulated net translation gain or loss is included in Non-interest revenue. Other foreign currency translation gains and losses (net of hedging activities) are included in Non-interest revenue.

Securities

Securities are classified at the time of purchase, based on management's intentions, as Trading account, Available for sale, or Held to maturity.

Trading account securities, which are purchased for resale over a short period of time, are stated at estimated current market value. Obligations to deliver trading securities sold but not yet purchased are recorded as liabilities and carried at fair value. Realized and unrealized gains and losses on these securities are recorded as Trading revenues in Non-interest revenue. Interest income accruing on Trading account securities is recorded in Interest income from securities. Interest expense accruing on interest-bearing securities sold short is recorded in Interest expense.

Available for sale securities include securities that may be sold in response to or in anticipation of changes in interest rates and resulting prepayment risk, changes in funding sources or terms, or to meet liquidity needs. These securities are carried at estimated current market value. Unrealized gains and losses on these securities, net of income taxes, are reported in Other comprehensive income to the extent not hedged by derivatives. Available for sale securities include tax-exempt securities, which are client financings that have been structured as after-tax investments rather than conventional loans in order to provide the issuers with a borrowing rate advantage. Such securities are accorded the accounting treatment applicable to loans and, if required, are reduced by an allowance for credit losses.

Held to maturity securities include debt securities that the bank has both the intent and the ability to hold until maturity and are carried at amortized cost. Premiums and discounts on Held to maturity securities are amortized to Interest income from securities using the yield method over the period to maturity of the related securities.

Gains and losses realized on disposal of Available for sale and Held to maturity securities, which are calculated on an average cost basis, and writedowns to reflect other than temporary impairment in value are included in Gain on sale of securities in Non-interest revenue.

Loans

Loans are stated net of an allowance for loan losses and unearned income, which comprises unearned interest and unamortized loan fees.

Loans are classified as nonaccrual when there is no longer reasonable assurance of the timely collection of the full amount of principal or interest. Whenever a payment is 90 days past due, loans other than credit card balances and Canadian government guaranteed loans are classified as nonaccrual unless they are fully secured or collection efforts are reasonably expected to result in repayment of debt. Credit card balances are charged off when a payment is 180 days in arrears. Canadian government guaranteed loans are classified as impaired when the loan is contractually 365 days in arrears. When a loan is identified as nonaccrual, the accrual of interest is discontinued and any previously accrued but unpaid interest on the loan is charged to the provision for credit losses. Interest received on nonaccrual loans is credited to the allowance for loan losses on that loan. Nonaccrual loans are returned to performing status when all amounts including interest have been collected, all charges for loan impairment have been reversed and the credit quality has improved such that there is reasonable assurance of timely collection of principal and interest.

When a loan has been identified as impaired, the carrying amount of the loan is reduced to its estimated realizable amount, measured by discounting the expected future cash flows at the effective interest rate inherent in the loan. In subsequent periods, recoveries of amounts previously charged off and any increase in the carrying value of the loan is credited to the allowance for loan losses on the consolidated balance sheet. Where a portion of a loan is charged off and the remaining balance is restructured, the new loan is carried on an accrual basis when there is no longer any reasonable doubt regarding the collectibility of principal or interest, and payments are not 90 days past due.

Collateral is obtained if, based on an evaluation of the client's creditworthiness, it is considered necessary for the client's overall borrowing facility.

Assets acquired in respect of problem loans are recorded at the lower of their fair value or the carrying value of the loan at the date of transfer. Any excess of the carrying value of the loan over the fair value of the assets acquired is recognized by a charge to the allowance for loan losses.

Fees that relate to such activities as originating, restructuring or renegotiating loans are deferred and recognized as Interest income over the expected term of such loans. Where there is reasonable expectation that a loan will result, commitment and standby fees are also recognized as Interest income over the expected term of the resulting loan. Otherwise, such fees are recorded as Other liabilities and amortized to Non-interest revenue over the commitment or standby period.

Allowance for credit losses

The allowance for credit losses is maintained at a level that management considers adequate to absorb identified credit related losses in the portfolio as well as losses that have been incurred, but are not yet identifiable. The allowance relates primarily to loans but also to deposits with other banks, derivatives, tax-exempt securities and other credit instruments such as acceptances, guarantees and letters of credit. The allowance is increased by the provision for credit losses, which is charged to income, and decreased by the amount of charge-offs, net of recoveries.

The allowance is determined based on management's identification and evaluation of problem accounts; estimated probable losses that exist on the remaining portfolio; and on other factors including the composition and quality of the portfolio, and changes in economic conditions.

Allocated specific
Allocated specific allowances are maintained to absorb losses on both specifically identified borrowers and other more homogeneous loans that have been recognized as nonaccrual. The losses relating to identified large business and government debtors are estimated based on the present value of expected payments on an account-by-account basis. The losses relating to other portfolio-type products, excluding credit cards, are based on net charge-off experience over an economic cycle. For credit cards, no specific allowance is maintained as balances are charged off if no payment has been received after 180 days. Personal loans are generally charged off at 150 days past due. Charge-offs for other loans are generally recorded when there is no realistic prospect of full recovery.

Allocated country risk
Allocated country risk allowances are maintained with respect to exposures to a number of less developed countries (LDCs) based on an overall assessment of the underlying economic conditions in those countries.

Allocated general
The allocated general allowance represents the best estimate of probable losses within the portion of the portfolio that has not yet been specifically identified as nonaccrual. This amount is established through the application of expected loss factors to outstanding and undrawn facilities. The allocated general allowance for large business and government loans and acceptances is based on the application of expected default and loss factors, determined by statistical loss migration analysis, delineated by loan type and rating. For more homogeneous portfolios, such as residential mortgages, small business loans, personal loans and credit cards, the determination of the allocated general allowance is done on a product portfolio basis. The losses are determined by the application of loss ratios determined through the analysis of loss migration and charge-off trends over an economic cycle, adjusted to reflect changes in the product offerings and credit quality of the pool.

Unallocated
The unallocated allowance is based on management's assessment of probable, unidentified losses in the portfolio that have not been captured in the determination of the allocated specific, allocated country risk or allocated general allowances. This assessment includes consideration of general economic and business conditions and regulatory requirements affecting key lending operations, recent loan loss experience, and trends in credit quality and concentrations. This allowance also reflects model and estimation risks and does not represent future losses or serve as a substitute for allocated allowances.

Assets purchased under reverse repurchase agreements and sold under repurchase agreements
The bank enters into short-term purchases of securities under agreements to resell (reverse repurchase agreements) and sales of securities under agreements to repurchase (repurchase agreements). These agreements are treated as collateralized lending and borrowing transactions and are carried on the consolidated balance sheet at the amounts at which the securities were initially acquired or sold. Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are included in Interest income and Interest expense, respectively.

Acceptances
Acceptances are short-term negotiable instruments issued by the bank's customers to third parties, which are guaranteed by the bank. The potential liability under acceptances is reported as a liability in the consolidated balance sheet. The recourse against the customer in the case of a call on these commitments is reported as a corresponding asset of the same amount under Loans. Fees earned are reported in Non-interest revenue.

Derivatives
The bank adopted Statement of Financial Accounting Standards, *Accounting for Derivative Instruments and Hedging Activities* (FAS 133), as amended by FAS 138, on November 1, 2000.

Derivatives are used in sales and trading activities to provide clients with the ability to manage their market risk exposures. Derivatives are also used to manage the bank's own exposures to interest, currency and other market risks. The most frequently used derivative products are foreign exchange forward contracts, interest rate and currency swaps, foreign currency and interest rate futures, forward rate agreements, and foreign currency and interest rate options. All derivatives, including derivatives embedded in financial instruments or contracts that are not clearly and closely related to the economic characteristics of the host financial instrument or contract, are recorded at fair value on the consolidated balance sheet.

When used in sales and trading activities, the realized and unrealized gains and losses on derivatives are recognized in Non-interest revenue. Market values are determined using pricing models that incorporate current market and contractual prices of the underlying instruments, time value of money, yield curve and volatility factors. A portion of the market value is deferred within Derivative-related amounts in Liabilities and amortized to income over the life of the instruments to cover credit risk and ongoing direct servicing costs. Unrealized gains and losses are generally reported on a gross basis as Derivative-related amounts in Assets and Liabilities, except where the bank has both the legal right and intent to settle these amounts simultaneously in which case they are presented on a net basis. Margin requirements and premiums paid are also included in Derivative-related amounts in Assets, while premiums received are shown in Derivative-related amounts in Liabilities.

When derivatives are used to manage the bank's own exposures, the bank determines for each derivative whether hedge accounting can be applied. Where the bank can apply hedge accounting, a hedge relationship is designated as a fair value hedge, a cash flow hedge, or a hedge of foreign currency exposure of net investment in a foreign operation. The hedge is documented at inception detailing the particular risk management objective and the strategy for undertaking the hedge transaction. The documentation identifies the specific asset or liability being hedged, the risk that is being hedged, the type of derivative used and how effectiveness will be measured. The derivative must be highly effective in accomplishing the objective of offsetting either changes in the fair value or cash flows attributable to the risk being hedged both at inception and over the life of the hedge. If it is determined that the derivative is not highly effective as a hedge, hedge accounting is discontinued.

Non-trading derivatives that do not qualify for hedge accounting are carried at fair value on the consolidated balance sheet, with changes in fair value recorded in Non-interest revenue.

Fair value hedge
Fair value hedge transactions predominantly use interest rate swaps to hedge the changes in the fair value of an asset, liability or firm commitment. The carrying amount of the hedged item is adjusted by gains or losses attributable to the hedged risk and recorded in Non-interest revenue. This unrealized gain or loss is offset by changes in the fair value of the derivative.

Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, the derivative is terminated or sold, or on the sale or early termination of the hedged item. The previously hedged asset or liability is no longer adjusted for changes in fair value. Cumulative fair value adjustments to the carrying amount of the hedged item are amortized into Net interest income over the remaining term of the original hedge relationship.

NOTE 1 Significant accounting policies (continued)

Cash flow hedge

Cash flow hedge transactions predominantly use interest rate swaps to hedge the variability in cash flows related to a variable rate asset or liability. The effective portion of the changes in the fair value of the derivative is reported in Other comprehensive income. The ineffective portion is reported in Non-interest revenue. The amounts recognized as Other comprehensive income for cash flow hedges are reclassified to Net interest income in the periods in which Net interest income is affected by the variability in the cash flows of the hedged item.

Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge or the derivative is terminated or sold. The amounts previously recognized in Accumulated other comprehensive income are reclassified to Net interest income in the periods in which Net interest income is affected by the variability in the cash flows of the hedged item. On the sale or early termination of the hedged item, gains and losses are reclassified immediately to Non-interest revenue.

Hedges of net foreign currency investments in subsidiaries

Foreign exchange forward contracts and U.S. dollar liabilities are used to minimize exposures from subsidiaries, branches and associated companies having a functional currency other than the Canadian dollar. Foreign exchange gains and losses on these hedging instruments are recorded in Other comprehensive income.

Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is recorded principally on the straight-line basis over the estimated useful lives of the assets, which are 25 to 50 years for buildings, 3 to 10 years for hardware, 3 to 5 years for software, 7 to 10 years for furniture, fixtures and other equipment, and lease term plus first option period for leasehold improvements. Gains and losses on disposal are recorded in Non-interest revenue.

Goodwill and other intangibles

Goodwill represents the excess of the price paid for the acquisition of subsidiaries over the fair value of the net assets acquired and is amortized over appropriate periods of up to 20 years, except where a writedown is required to reflect permanent impairment. Identifiable, reliably measurable Other intangible assets, such as core deposit intangibles and client lists, resulting from acquisition of subsidiaries are also amortized over appropriate periods of up to 20 years. An impairment review on unamortized goodwill and other intangibles is performed periodically. Such evaluation is based on various analyses including undiscounted cash flow; market value is used if a sale or disposition is being considered.

Income taxes

The bank uses the asset and liability method whereby income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets or liabilities for book purposes compared with tax purposes. Accordingly, a deferred income tax asset or liability is determined for each temporary difference based on the tax rates that are expected to be in effect when the underlying items of income and expense are expected to be realized. Income taxes on the consolidated statement of income include the current and deferred portions of the expense. Income taxes applicable to items charged or credited to Retained earnings and Other comprehensive income are netted with such items.

Deferred income taxes accumulated as a result of temporary differences are included in Other assets. A valuation allowance is established to reduce deferred income tax assets to the amount expected to be realized. In addition, the consolidated statement of income contains items that are non-taxable or non-deductible for income tax purposes and, accordingly, cause the income tax provision to be different than what it would be if based on statutory rates.

Pensions and other postretirement benefits

The bank provides a number of benefit plans which provide pension and other benefits to qualified employees. These plans include statutory pension plans, supplemental pension plans, defined contribution plans and health, dental and life insurance plans.

The bank funds its statutory pension plans and health, dental and life insurance plans annually based on actuarially determined amounts needed to satisfy employee benefit entitlements under current pension regulations. These pension plans provide benefits based on years of service, contributions and average earnings at retirement.

Actuarial valuations are performed on a regular basis to determine the present value of the accrued pension benefits, based on projections of employees' compensation levels to the time of retirement. Investments held by the pension funds primarily comprise equity securities, bonds and debentures. Market-related values are used to value pension fund assets.

Pension expense consists of the cost of employee pension benefits for the current year's service, interest expense on the liability, expected investment return on the market value of plan assets and the amortization of both deferred past service costs and deferred actuarial gains and losses. Amortization is charged over the expected average remaining service life of employee groups covered by the plan.

The cumulative excess of pension fund contributions over the amounts recorded as expenses is reported as a prepaid expense in Other assets. Other postretirement benefits are reported in Other liabilities.

Defined contribution plan costs are recognized in income for services rendered by employees during the period.

Recognition of an additional liability is required if an unfunded accumulated benefit obligation exists and (i) an asset has been recognized as a prepaid pension cost, (ii) the projected benefit obligation is greater than the fair value of plan assets, or (iii) no accrued or prepaid pension cost has been recognized. If an additional liability is required to be recognized and it exceeds unrecognized prior service cost, the excess is reported as Additional pension obligation in Other comprehensive income.

Assets under administration and assets under management

The bank administers and manages assets owned by clients that are not reflected on the consolidated balance sheet. Asset management fees are earned for providing investment management services and mutual fund products. Asset administration fees are earned for providing trust, estate administration and custodial services. Fees are recognized and reported in Non-interest revenue as the services are provided.

Loan securitization

The bank adopted Statement of Financial Accounting Standards, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (FAS 140), effective April 1, 2001.

The bank periodically securitizes loans by selling loans to independent special-purpose vehicles or trusts that issue securities to investors. These transactions are accounted for as sales when the bank is deemed to have surrendered control over such assets and consideration other than beneficial interests in these transferred assets has been received by the bank in exchange. The bank often retains interests in the securitized loans, such as interest-only strips or servicing rights, and in some cases cash reserve accounts. Gains on these transactions are recognized in Non-interest revenues and are dependent in part on the previous carrying amount of the loans involved in the transfer, which is allocated between the loans sold and the retained interests, based on their relative fair value at the date of transfer. To obtain fair values, quoted market prices are used, if available. Quotes are generally not available for retained interests, so the bank generally determines fair value based on the present value of future expected cash flows using management's best estimates of key assumptions such as payment rates, excess spread, credit losses and discount rates commensurate with the risks involved.

Generally, the loans are transferred on a fully serviced basis. As a result, the bank recognizes a servicing liability on the date of transfer and amortizes this liability to income over the term of the transferred loans.

Retained interests in securitizations that can be contractually prepaid or otherwise settled in such a way that the bank would not recover substantially all of its recorded investment are classified as Available for sale securities.

Insurance operations

Earned premiums, fees, claims and changes in actuarial reserves are included in Non-interest revenue. Investments are primarily included in Available for sale securities and actuarial reserves are included in Other liabilities. Investment income is included in Interest income and administrative expenses are included in Non-interest expenses.

Premiums from long-duration contracts, primarily life insurance, are recognized as income when due, except for universal life and investment-type contracts, the premiums on which are credited to policyholder balances and included in Other liabilities. Premiums from short-duration contracts, primarily property and casualty, and fees for administrative services and investment-type contracts are recognized over the related contract period.

Reserves represent estimated liabilities for future insurance policy benefits. Reserves for life insurance contracts except universal life and investment-type contracts are determined using the net level premium method, which incorporates assumptions for mortality, morbidity, policy lapses and surrenders, investment yields, policy dividends and operating expenses. These assumptions are not revised unless it is determined that existing deferred acquisition costs cannot be recovered. For universal life and investment-type contracts, the actuarial liability is equal to the policyholder account values and includes a net level premium reserve for some contracts. Reserves for property and casualty insurance include unearned premiums, representing the unexpired portion of premiums, and estimated provisions for reported and unreported claims incurred.

Deferred acquisition costs are included in Other assets and amortized to Non-interest revenue. Amortization of such costs is in proportion to premium revenue for long-duration contracts, estimated gross profits for universal life and investment-type contracts, and is over the policy term for short-duration contracts.

Value of business acquired represents the present value of estimated net cash flows embedded in existing contracts acquired by the bank and is included in Other assets. It is amortized in the same manner as deferred acquisition costs for life insurance contracts.

Future accounting changes

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards, *Business Combinations* (FAS 141), and *Goodwill and Other Intangible Assets* (FAS 142). The bank will adopt the new standards as of November 1, 2001.

The standards require that all business combinations be accounted for using the purchase method and establish specific criteria for the recognition of intangible assets separately from goodwill. Under the standards, goodwill will no longer be amortized but will be subject to impairment tests on at least an annual basis. During 2002, the bank will perform the required impairment tests on goodwill recorded as of November 1, 2001.

Goodwill amortized to income for the year ended October 31, 2001, was $250 million.

NOTE 2 Significant acquisitions and dispositions

Acquisitions

During the year, the bank acquired Liberty Life Insurance Company and Liberty Insurance Services Corporation (Liberty), Dain Rauscher Corporation (Dain Rauscher), Centura Banks, Inc. (Centura) and Tucker Anthony Sutro Corporation (Tucker Anthony Sutro). Adjustments to goodwill are permitted up to one year after the acquisition has closed in order to incorporate refinements to the initial fair value estimates of assets and liabilities acquired. The details of these acquisitions are as follows:

	Liberty	Dain Rauscher	Centura	Tucker Anthony Sutro
Acquisition date	November 1, 2000	January 10, 2001	June 5, 2001	October 31, 2001
Business segment	Insurance	Wealth Management and Corporate & Investment Banking	Personal & Commercial Banking	Wealth Management and Corporate & Investment Banking
Percentage of shares acquired	100%	100%	100%	100%
Cost	$890	$1,838	$3,331	$943
Purchase consideration	Assets were purchased with a dividend of US$70 paid from Liberty Life Insurance Company plus US$580 cash	Each Dain Rauscher common share was purchased for US$95 cash	Approximately 67 million RBC common shares were issued, valued at $49.20 each	Each Tucker Anthony Sutro common share was purchased for US$24 cash
Goodwill	$127	$1,544	$1,868	$692

NOTE 2 Significant acquisitions and dispositions (continued)

Fair values of net assets acquired

		Liberty		Dain Rauscher		Centura		Tucker Anthony Sutro		Total
Fair value of assets acquired										
Cash resources	$	7	$	111	$	518	$	54	$	690
Securities		1,849		528		4,819		385		7,581
Loans		–		2,405		12,002		–		14,407
Premises and equipment		43		74		244		48		409
Core deposit intangibles		–		–		395		–		395
Other intangibles		–		–		12		–		12
Other assets		959		601		687		344		2,591
	$	2,858	$	3,719	$	18,677	$	831	$	26,085
Fair value of liabilities assumed										
Deposits	$	–	$	127	$	11,195	$	4	$	11,326
Obligations related to assets sold under repurchase agreements		–		86		136		8		230
Other liabilities		2,095		3,212		5,883		568		11,758
	$	2,095	$	3,425	$	17,214	$	580	$	23,314
Fair value of identifiable net assets acquired	$	763	$	294	$	1,463	$	251	$	2,771
Goodwill		127		1,544		1,868		692		4,231
Total purchase consideration	$	890	$	1,838	$	3,331	$	943	$	7,002

The following unaudited supplemental pro forma information has been prepared to give effect to these acquisitions as if they had occurred at the beginning of the year.

This information is the result of a calculation that combines the bank's results of the operations for the years presented with each of the acquired companies' results of operations prior to the acquisition date, and adjusts for goodwill amortization, core deposit intangible amortization, funding costs and significant merger-related items as if these acquisitions had occurred at the beginning of the year.

The unaudited pro forma combined condensed results of operations are not intended to reflect the results of operations that would have actually resulted had these transactions occurred at the beginning of the year, or the results which may be obtained in the future.

Unaudited pro forma combined condensed results of operations

		2001		2000
Net interest income	$	6,910	$	6,128
Provision for credit losses		1,165		741
Non-interest revenue		9,471		9,478
Non-interest expenses		11,236		10,898
Income taxes		1,394		1,579
Non-controlling interest in net income of subsidiaries		107		74
Net income	$	2,479	$	2,314
Preferred share dividends		135		134
Net income available to common shareholders	$	2,344	$	2,180
Average number of diluted common shares (in thousands)		686,540		677,278
Diluted earnings per share (in dollars)	$	3.41	$	3.22

Dispositions

During the year, the bank sold its institutional asset management business operated by RT Capital Management Inc. and realized a pre-tax gain of $313 million (after-tax $251 million) recorded in Non-interest revenue. The sale agreement includes provisions based on client retention experience six months after closing, which could potentially result in a reduction of $62 million to the after-tax gain. The bank has assessed that it is unlikely that this payment will be made.

In addition, the bank divested certain other businesses and realized a pre-tax gain of $132 million (after-tax $111 million) recorded in Non-interest revenue.

NOTE 3 Results by business and geographic segment

2001	Personal & Commercial Banking	Insurance	Wealth Management	Corporate & Investment Banking	Transaction Processing	Total (1)	Canada	International (2)
Net interest income on taxable equivalent basis	$ 5,347	$ 206	$ 384	$ 429	$ 150	$ 6,529	$ 5,324	$ 1,205
Taxable equivalent adjustment	6	–	–	21	–	32	26	6
Net interest income	5,341	206	384	408	150	6,497	5,298	1,199
Provision for credit losses	732	–	2	407	(2)	1,119	757	362
Net interest income after provision for credit losses	4,609	206	382	1	152	5,378	4,541	837
Non-interest revenue	1,839	336	3,040	2,352	563	8,155	5,210	2,945
Non-interest expenses	4,216	375	2,691	1,804	476	9,641	6,355	3,286
Net income before income taxes	2,232	167	731	549	239	3,892	3,396	496
Income taxes	926	(6)	223	200	95	1,350	1,327	23
Non-controlling interest	10	–	–	–	–	107	97	10
Net income	$ 1,296	$ 173	$ 508	$ 349	$ 144	$ 2,435	$ 1,972	$ 463
Total average assets	$ 143,000	$ 6,300	$ 11,300	$ 159,500	$ 2,400	$ 331,600	$ 207,400	$ 124,200

2000	Personal & Commercial Banking	Insurance	Wealth Management	Corporate & Investment Banking	Transaction Processing	Total (1)	Canada	International (2)
Net interest income on taxable equivalent basis	$ 4,705	$ 84	$ 359	$ 43	$ 160	$ 5,307	$ 4,796	$ 511
Taxable equivalent adjustment	6	–	–	22	–	28	28	–
Net interest income	4,699	84	359	21	160	5,279	4,768	511
Provision for credit losses	649	–	(1)	91	(21)	691	703	(12)
Net interest income after provision for credit losses	4,050	84	360	(70)	181	4,588	4,065	523
Non-interest revenue	1,566	163	2,138	2,287	514	6,680	5,277	1,403
Non-interest expenses	3,684	173	1,846	1,456	459	7,628	6,470	1,158
Net income before income taxes	1,932	74	652	761	236	3,640	2,872	768
Income taxes	812	(29)	239	259	102	1,412	1,311	101
Non-controlling interest	5	–	–	–	–	20	15	5
Net income	$ 1,115	$ 103	$ 413	$ 502	$ 134	$ 2,208	$ 1,546	$ 662
Total average assets	$ 129,700	$ 2,200	$ 8,000	$ 131,900	$ 1,600	$ 284,100	$ 200,100	$ 84,000

1999	Personal & Commercial Banking	Insurance	Wealth Management	Corporate & Investment Banking	Transaction Processing	Total (1)	Canada	International (2)
Net interest income on taxable equivalent basis	$ 4,410	$ 47	$ 267	$ 402	$ 168	$ 5,152	$ 4,402	$ 750
Taxable equivalent adjustment	8	–	–	27	–	35	35	–
Net interest income	4,402	47	267	375	168	5,117	4,367	750
Provision for credit losses	575	–	–	223	6	760	672	88
Net interest income after provision for credit losses	3,827	47	267	152	162	4,357	3,695	662
Non-interest revenue	1,375	174	1,684	1,588	459	5,491	4,277	1,214
Non-interest expenses	3,765	133	1,556	1,305	436	7,141	6,054	1,087
Net income before income taxes	1,437	88	395	435	185	2,707	1,918	789
Income taxes	606	(20)	123	134	78	974	815	159
Non-controlling interest	4	–	–	–	–	8	4	4
Net income	$ 827	$ 108	$ 272	$ 301	$ 107	$ 1,725	$ 1,099	$ 626
Total average assets	$ 122,500	$ 1,400	$ 8,900	$ 127,300	$ 1,800	$ 270,000	$ 187,900	$ 82,100

(1) The difference between the total and the business segments presented represents other activities, which mainly comprise Corporate Treasury, Corporate Resources, Systems & Technology and Real Estate Operations.

(2) Includes United States gross revenues of $2,882 million (2000 – $832 million; 1999 – $715 million).

For management reporting purposes, the operations of the bank are grouped into the business segments of Personal & Commercial Banking, Insurance, Wealth Management, Corporate & Investment Banking and Transaction Processing. The difference between the total and the business segments presented represents other activities, which mainly comprise Corporate Treasury, Corporate Resources, Systems & Technology and Real Estate Operations.

The business segments operate on an arm's-length basis with respect to the purchase and sale of intra-group services. Transfer pricing of funds sold or purchased, commissions, or charges and credits for services rendered are generally at market rates.

For geographic reporting purposes, Canadian-based activities of international money market units are included in International.

NOTE 4 Securities

	Term to maturity (1)					2001	2000
	Under 1 year	1 to 5 years	Over 5 years to 10 years	Over 10 years	With no specific maturity	Total	Total
Trading account (2)							
Canadian government debt (3)	$ 7,396	$ 2,909	$ 1,436	$ 1,283	$ –	$13,024	$10,095
U.S. Treasury and other U.S. agencies	693	249	90	116	–	1,148	2,308
Other OECD government debt	1,121	499	607	186	–	2,413	1,140
Mortgage-backed securities	11	230	167	281	–	689	68
Asset-backed securities	–	–	220	4,208	–	4,428	929
Other debt	11,867	4,554	2,239	2,125	–	20,785	17,286
Equities	–	–	–	–	15,926	15,926	17,001
	21,088	8,441	4,759	8,199	15,926	58,413	48,827
Available for sale (2)							
Canadian government debt (3)							
Amortized cost	3,092	1,309	59	163	–	4,623	2,851
Estimated market value	3,144	1,341	60	163	–	4,708	2,843
Yield (4)	4.6%	5.0%	6.9%	7.7%	–	4.9%	6.1%
U.S. Treasury and other U.S. agencies							
Amortized cost	283	1,418	328	1	–	2,030	87
Estimated market value	284	1,480	353	1	–	2,118	87
Yield (4)	3.2%	5.1%	4.7%	6.2%	–	4.8%	6.0%
Other OECD government debt							
Amortized cost	1,225	303	33	–	–	1,561	1,313
Estimated market value	1,225	314	34	–	–	1,573	1,312
Yield (4)	0.3%	4.3%	4.7%	–	–	1.2%	1.3%
Mortgage-backed securities							
Amortized cost	220	3,370	442	499	–	4,531	4,091
Estimated market value	223	3,468	463	522	–	4,676	4,015
Yield (4)	5.6%	5.4%	6.7%	6.6%	–	5.6%	5.3%
Asset-backed securities							
Amortized cost	3	85	235	91	–	414	–
Estimated market value	4	88	246	96	–	434	–
Yield (4)	9.3%	12.4%	7.2%	7.0%	–	8.2%	–
Other debt							
Amortized cost	2,065	1,865	1,036	2,552	198	7,716	4,802
Estimated market value	2,043	1,855	1,048	2,616	198	7,760	4,711
Yield (4)	3.7%	4.7%	8.1%	6.6%	6.2%	5.6%	6.6%
Equities							
Cost	–	–	–	–	1,382	1,382	889
Estimated market value	–	–	–	–	1,418	1,418	968
Amortized cost	6,888	8,350	2,133	3,306	1,580	22,257	14,033
Estimated market value	6,923	8,546	2,204	3,398	1,616	22,687	13,936
Held to maturity (2)							
Other OECD government debt							
Amortized cost						–	261
Estimated market value						–	261
Yield (4)						–	6.3%
Other debt							
Amortized cost						–	437
Estimated market value						–	444
Yield (4)						–	6.9%
Amortized cost						–	698
Estimated market value						–	705
Total carrying value of securities (2)	$28,011	$16,987	$ 6,963	$11,597	$17,542	$81,100	$63,461
Total estimated market value of securities	$28,011	$16,987	$ 6,963	$11,597	$17,542	$81,100	$63,468

(1) Actual maturities may differ from contractual maturities shown above, since borrowers may have the right to prepay obligations with or without prepayment penalties.
(2) Trading account and Available for sale securities are carried at estimated current market value. Held to maturity securities are carried at amortized cost.
(3) Canadian government debt comprises securities issued or guaranteed by Canadian federal, provincial or municipal governments.
(4) The weighted average yield is based on the carrying value at the end of the year for the respective securities.

Unrealized gains and losses

	2001				2000			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated market value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated market value
Available for sale								
Canadian government debt (1)	$ 4,623	$ 85	$ –	$ 4,708	$ 2,851	$ 5	$ (13)	$ 2,843
U.S. Treasury and other U.S. agencies	2,030	88	–	2,118	87	–	–	87
Other OECD government debt	1,561	15	(3)	1,573	1,313	–	(1)	1,312
Mortgage-backed securities	4,531	145	–	4,676	4,091	2	(78)	4,015
Asset-backed securities	414	25	(5)	434	–	–	–	–
Other debt	7,716	169	(125)	7,760	4,802	29	(120)	4,711
Equities	1,382	104	(68)	1,418	889	102	(23)	968
	$22,257	$ 631	$ (201)	$22,687	$14,033	$ 138	$ (235)	$13,936
Held to maturity								
Other OECD government debt	$ –	$ –	$ –	$ –	$ 261	$ 1	$ (1)	$ 261
Other debt	–	–	–	–	437	7	–	444
	$ –	$ –	$ –	$ –	$ 698	$ 8	$ (1)	$ 705

(1) Canadian government debt consists of securities issued or guaranteed by Canadian federal, provincial or municipal governments.

Realized gains and losses on sales of available for sale securities

	2001	2000	1999
Realized gains	$ 106	$ 106	$ 94
Realized losses	234	117	66
Gain (loss) on sale of securities	$ (128)	$ (11)	$ 28

NOTE 5 Loans

	2001	2000
Canada (1)		
Residential mortgage	$ 64,066	$ 61,444
Personal	27,202	27,207
Credit card	4,110	4,666
Business and government loans and acceptances	42,575	47,616
	137,953	140,933
United States (1)		
Residential mortgage	2,666	845
Personal	4,621	78
Credit card	128	–
Business and government loans and acceptances	26,883	13,808
	34,298	14,731
Other international (1)		
Residential mortgage	712	695
Personal	688	734
Credit card	45	–
Business and government loans and acceptances	7,404	10,719
	8,849	12,148
Total loans (2)	181,100	167,812
Allowance for loan losses	(2,278)	(1,871)
Total loans net of allowance for loan losses	$ 178,822	$ 165,941

(1) Loans in Canada, United States and Other international include all loans booked in those locations, regardless of currency or residence of borrower.
(2) Loans are net of unearned income of $130 million (2000 – $121 million).

NOTE 5 Loans (continued)

Loan maturities 2001

	Floating	Under 3 months	3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-rate-sensitive	2001 Total
Residential mortgage	$ 6,310	$ 7,363	$ 13,250	$ 39,098	$ 1,244	$ 179	$ 67,444
Personal	17,239	8,893	2,360	3,585	109	325	32,511
Credit card	–	3,543	–	–	–	740	4,283
Business and government loans and acceptances	15,237	33,794	10,189	12,460	3,221	1,961	76,862
Total loans	$ 38,786	$ 53,593	$ 25,799	$ 55,143	$ 4,574	$ 3,205	181,100
Allowance for loan losses							(2,278)
Total loans net of allowance for loan losses							$ 178,822

Nonaccrual loans

	2001	2000
Residential mortgage	$ 179	$ 199
Personal	325	247
Business and government loans and acceptances	372	301
	876	747
Individually impaired business and government loans and acceptances	1,589	931
	$ 2,465	$ 1,678
Allowance for impaired loans	$ 615	$ 439
Average balance of impaired loans (1)	$ 1,190	$ 941

(1) For the year ended October 31, 1999, the average balance of impaired loans was $1,220 million.

Allowance for loan losses

	2001	2000	1999
Allowance for credit losses at beginning of year (1)	$ 1,975	$ 1,900	$ 2,066
Charge-offs	(1,125)	(839)	(1,072)
Recoveries	185	162	114
Net charge-offs	(940)	(677)	(958)
Provision for credit losses	1,119	691	760
Acquisition of Centura Banks, Inc.	157	–	–
Other	81	61	32
Allowance for credit losses at end of year	2,392	1,975	1,900
Allowance for off-balance sheet and other items (2)	(109)	(98)	–
Allowance for tax-exempt securities	(5)	(6)	(16)
Allowance for loan losses at end of year	$ 2,278	$ 1,871	$ 1,884

(1) Includes an allowance related to tax-exempt securities.
(2) Beginning in 2000, the allowance for off-balance sheet and other items was separated and reported under Other liabilities. Previously, the amount was included in the allowance for loan losses.

NOTE 6 Securitizations

During the year, the bank sold undivided interests in credit card loans to a trust, received cash proceeds of $1 billion and retained the rights to future excess interest of $10 million on the credit card loans. As part of the proceeds the bank assumed a servicing liability of $3 million and recognized a pre-tax gain on sale of $7 million in Securitization revenues.

During the year, the bank also securitized $800 million of government guaranteed residential mortgage loans through the creation of mortgage-backed securities, and initially sold $723 million of those securities. Mortgage-backed securities, created and unsold, remain on the consolidated balance sheet and are classified as Available for sale. The bank received net cash proceeds of $720 million and retained the rights to future excess interest of $25 million on the residential mortgages. A pre-tax gain on sale, net of transaction costs, of $22 million was recognized in Securitization revenues.

The key assumptions used to value the sold and retained interests at the date of securitization for transactions completed during the year were as follows:

Key assumptions (1)

	Credit card loans	Residential mortgage loans
Payment rate	40.17%	12.00%
Excess spread, net of credit losses	6.57	1.02
Expected credit losses	1.68	–
Discount rate	12.50	5.41
Servicing	2.00	0.25

(1) All rates are annualized except for credit card loans payment rate, which is monthly.

The actual credit loss experience of the securitized portion of the bank's credit card portfolio remains consistent with the assumption in the table above. Actual credit losses, net of recoveries on the securitized portion of the bank's credit card portfolio in 2001, were $25 million. As at October 31, 2001, 97% of the bank's credit card portfolio was current, defined as being less than 31 days past due.

At October 31, 2001, the bank had a retained interest in $2.1 billion of securitized credit card loans ($1.1 billion at October 31, 2000) and $1.4 billion of bank created and sold mortgage-backed securities ($1.0 billion at October 31, 2000). At October 31, 2001, key economic assumptions and the sensitivity of the current fair value of these retained interests to immediate 10% and 20% adverse changes in key assumptions are as follows:

Sensitivity of key assumptions to adverse changes (1)

	Assumption		Impact on fair value	
	Credit card loans	Residential mortgage loans	Credit card loans	Residential mortgage loans
Payment rate	38.28%	7.73%		
Impact on fair value of 10% adverse change	42.11	8.50	$ (1.2)	$ (0.5)
Impact on fair value of 20% adverse change	45.94	9.27	(2.4)	(1.0)
Excess spread, net of credit losses	6.02	1.11		
Impact on fair value of 10% adverse change	5.42	1.00	(2.0)	(3.3)
Impact on fair value of 20% adverse change	4.82	0.89	(3.9)	(6.6)
Expected credit losses	1.68	–		
Impact on fair value of 10% adverse change	1.85	–	(0.6)	–
Impact on fair value of 20% adverse change	2.02	–	(1.2)	–
Discount rate	12.50	4.65		
Impact on fair value of 10% adverse change	13.75	5.12	(0.1)	(0.2)
Impact on fair value of 20% adverse change	15.00	5.58	(0.1)	(0.4)

(1) All rates are annualized except for credit card loans payment rate, which is monthly.

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in the table above, the effect of a variation in a particular assumption on the fair value of the retained interests is calculated without changing any other assumption; generally, changes in one factor may result in changes in another, which may magnify or counteract the sensitivities.

The table below summarizes certain cash flows received from securitization trusts in 2001:

Cash flows from securitizations

	Credit card loans	Residential mortgage loans
Proceeds from new securitizations	$ 1,000	$ 720
Proceeds reinvested in revolving securitizations	6,972	13
Cash flows from retained interests in securitizations	60	10

NOTE 7 Premises and equipment

	2001			2000
	Cost	Accumulated depreciation	Net book value	Net book value
Land	$ 123	$ –	$ 123	$ 93
Buildings	697	283	414	251
Hardware and software	1,542	1,105	437	409
Furniture, fixtures and other equipment	858	545	313	201
Leasehold improvements	832	521	311	262
	$ 4,052	$ 2,454	$ 1,598	$ 1,216

NOTE 8 Subordinated debentures

The debentures are unsecured obligations and are subordinated in right of payment to the claims of depositors and certain other creditors. All repurchases, cancellations and exchanges of subordinated debentures are subject to the consent and approval of the Superintendent of Financial Institutions Canada.

Maturity	Earliest redemption date	Rate		Denominated in foreign currency	2001	2000
January 31, 2001		11.75%			$ –	$ 27
August 15, 2001		10.75%			–	15
January 11, 2002	January 11, 2002	11.00%			41	41
March 1, 2002	March 1, 2002	10.50%			60	60
July 29, 2005	(1)	(1)	Callable (2)	US$350	–	533
September 3, 2007	September 3, 2002	5.40% (3)	Callable (4)		400	400
September 3, 2008	September 3, 2003	5.45% (5)	Callable (4)		100	100
April 12, 2009	April 12, 2004	5.40% (6)	Callable (4)		350	350
June 11, 2009	June 11, 2004	5.10% (7)	Callable (4)		350	350
July 7, 2009	July 7, 2004	6.05% (8)	Callable (4)		175	175
October 12, 2009	October 12, 2004	6.00% (9)	Callable (4)		150	150
August 15, 2010	August 15, 2005	6.40% (10)	Callable (4)		700	700
February 13, 2011	February 13, 2006	5.50% (11)	Callable (12)		125	–
April 26, 2011	April 26, 2006	8.20% (13)	Callable (14)		100	100
September 12, 2011	September 12, 2006	6.50% (15)	Callable (4)		350	350
October 24, 2011	October 24, 2006	6.75% (16)	Callable (2)	US$300	476	457
June 4, 2012	June 4, 2007	6.75% (17)	Callable (4)		500	500
January 22, 2013	January 22, 2008	6.10% (18)	Callable (19)		500	–
November 14, 2014	November 14, 2014	10.00%			200	200
January 25, 2015	January 25, 2010	7.10% (20)	Callable (4)		500	500
April 12, 2016	April 12, 2011	6.30% (21)			400	–
June 8, 2023	June 8, 2023	9.30%			110	110
October 1, 2083	(22)	(23)	Callable (24)		250	250
June 6, 2085	(22)	(25)	Callable (2)	US$300	477	457
					6,314	5,825
Fair value adjustment (26)					348	–
					$ 6,662	$ 5,825

(1) Interest at a rate of .0625% above the U.S. dollar 1-month LIBOR. Redeemed on May 31, 2001.
(2) Callable at the principal amount.
(3) Interest at a rate of 5.40% until September 3, 2002, and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(4) Callable at the greater of (i) the yield of Government of Canada bonds plus 5 basis points, or (ii) the principal amount.
(5) Interest at a rate of 5.45% until September 3, 2003, and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(6) Interest at a rate of 5.40% until April 12, 2004, and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(7) Interest at a rate of 5.10% until June 11, 2004, and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(8) Interest at a rate of 6.05% until July 7, 2004, and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(9) Interest at a rate of 6.00% until October 12, 2004, and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(10) Interest at a rate of 6.40% until August 15, 2005, and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(11) Interest at a rate of 5.50% until February 13, 2006, and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(12) Callable at the greater of (i) the yield of Government of Canada bonds plus 8 basis points, or (ii) the principal amount.
(13) Interest at a rate of 8.20% until April 26, 2006, and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(14) Callable at the greater of (i) the yield of Government of Canada bonds plus 10 basis points, or (ii) the principal amount.
(15) Interest at a rate of 6.50% until September 12, 2006, and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(16) Interest at a rate of 6.75% until October 24, 2006, and thereafter at a rate of 1.00% above the U.S. dollar 6-month LIBOR.
(17) Interest at a rate of 6.75% until June 4, 2007, and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(18) Interest at a rate of 6.10% until January 22, 2008, and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(19) Callable at the greater of (i) the yield of Government of Canada bonds, or (ii) the principal amount.
(20) Interest at a rate of 7.10% until January 25, 2010, and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(21) Interest at a rate of 6.30% until April 12, 2011, and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(22) Redeemable at any interest payment date at the option of the bank.
(23) Interest at a rate of .40% above the 30-day Bankers' Acceptance rate.
(24) Callable at an amount not exceeding 100.5% of the principal amount plus accrued and unpaid interest up to the date of redemption.
(25) Interest at a rate of .25% above the U.S. dollar 3-month LIMEAN. In the event of a reduction of the annual dividend declared by the bank on its Common Shares, the interest payable on the debentures is reduced pro rata to the dividend reduction and the interest reduction is payable with the proceeds from the sale of Common Shares.
(26) The fair value adjustment reflects the adjustment to the carrying value of hedged subordinated debentures as a result of the adoption of FAS 133. The subordinated debentures specifically hedged have a maturity of October 24, 2011 to April 12, 2016.

Repayment schedule

The aggregate maturities of the debentures, based on the maturity dates under the terms of issue, are as follows:

2002	$ 101
2003	–
2004	–
2005	–
2006	–
2007 to 2011	3,328
Thereafter	3,233
	$ 6,662

Subsequent event

Subsequent to year-end, on November 8, 2001, the bank issued subordinated debentures of US$400 million. Interest is paid at a rate of 0.50% above the U.S. dollar three-month LIBOR until November 8, 2006, and thereafter at a rate of 1.50% above the U.S. dollar three-month LIBOR.

NOTE 9 Capital stock

Authorized capital stock

Preferred – An unlimited number of First Preferred Shares and Second Preferred Shares without nominal or par value, issuable in series; the aggregate consideration for which all the First Preferred Shares and all the Second Preferred Shares that may be issued may not exceed $10 billion and $5 billion, respectively.

Common – An unlimited number of shares without nominal or par value may be issued.

Issued and outstanding capital stock

	2001			2000			1999		
	Number of shares (000s)	**Amount**	**Dividends declared per share**	Number of shares (000s)	Amount	Dividends declared per share	Number of shares (000s)	Amount	Dividends declared per share
First Preferred									
Non-cumulative Series E	**1,500**	**$ 149**	**$ 5.16**	1,500	$ 149	$ 5.38	1,500	$ 149	$ 4.69
Non-cumulative Series H (1)	**–**	**–**	**1.69**	12,000	295	2.25	12,000	295	2.25
US$ Non-cumulative Series I (1)	**8,000**	**315**	**US 1.91**	8,000	301	US 1.91	8,000	291	US 1.91
Non-cumulative Series J	**12,000**	**294**	**1.78**	12,000	294	1.78	12,000	294	1.78
US$ Non-cumulative Series K	**10,000**	**392**	**US 1.58**	10,000	376	US 1.58	10,000	363	US 1.58
Non-cumulative Series N	**12,000**	**293**	**1.18**	12,000	293	1.18	12,000	293	1.18
Non-cumulative Series O	**6,000**	**145**	**1.38**	6,000	145	1.38	6,000	145	0.58
US$ Non-cumulative Series P	**4,000**	**155**	**US 1.44**	4,000	148	US 1.44	4,000	143	US 0.61
Non-cumulative Series S	**10,000**	**247**	**0.65**	–	–	–	–	–	–
		$ 1,990			$ 2,001			$ 1,973	
Common									
Balance at beginning of year	**602,398**	**$ 3,074**		617,768	$ 3,063		617,581	$ 2,923	
Issued	**12,305**	**576**		–	–		–	–	
Issued under the Stock Option Plan	**2,819**	**81**		2,700	59		953	17	
Issued on the acquisition of Centura Banks, Inc.	**67,413**	**3,317**		–	–		–	–	
Options granted on acquisition of Dain Rauscher Corporation	**–**	**33**		–	–		–	–	
Issued on the acquisition of Richardson Greenshields Limited (2)	**13**	**2**		1,667	50		9,580	170	
Issued on the acquisition of RBC Dominion Securities Limited (3)	**–**	**–**		–	–		140	5	
Issuance costs, net of related income taxes	**–**	**(12)**		–	–		–	–	
Purchased for cancellation (4)	**(10,927)**	**(112)**		(19,737)	(98)		(10,486)	(52)	
Balance at end of year	**674,021**	**$ 6,959**	**$ 1.38**	602,398	$ 3,074	$ 1.14	617,768	$ 3,063	$ 0.94

(1) On August 24, 2001, the bank redeemed First Preferred Shares **Series H**. On September 25, 2001, the bank announced its intention to redeem First Preferred Shares **Series I** on November 26, 2001.

(2) During the year the bank exchanged 36,527 (2000 – 4,701; 1999 – 4,606,341) Class B shares and 77,956 (2000 – 8,008,712; 1999 – nil) Class C shares issued by its wholly owned subsidiary, Royal Bank DS Holding Inc., on the acquisition of Richardson Greenshields Limited for 13,621 (2000 – 1,667,334; 1999 – 9,579,166) Common Shares. On November 9, 2001, the remaining balance of Class C shares was exchanged for 318,154 Common Shares.

(3) On November 1, 1998, the bank acquired all of the outstanding participating preferred shares of RBC Dominion Securities Limited in exchange for 140,000 Common Shares.

(4) In June 2001 and in May 1999 (amended in February 2000), pursuant to a normal course issuer bid, the bank announced its intention to repurchase up to 18,000,000 and 18,707,963 Common Shares, respectively, during the 12 months ended June 22, 2002, and June 23, 2000, respectively. Purchases were made in the open market at market prices through the facilities of the Toronto and Montreal Stock Exchanges, and in accordance with stock exchange requirements. The amount and timing of any such purchases were determined by the bank. Premiums paid above the average carrying value of the Common Shares were charged to retained earnings. The bank repurchased 10,927,200 Common Shares (2000 – 19,736,880; 1999 – 10,485,800) at a cost of $509 million (2000 – $660 million; 1999 – $333 million), common stock was reduced by $112 million (2000 – $98 million; 1999 – $52 million) and retained earnings was reduced by $397 million (2000 – $562 million; 1999 – $281 million).

NOTE 9 Capital stock (continued)

Terms of preferred shares

	Dividend per share (1)	Redemption date (2)	Redemption price (3)	Conversion dates: At the option of the bank (2), (4)	Conversion dates: At the option of the holder (5)
First Preferred					
Non-cumulative Series E (6)	(6)	September 2, 2002	$100.00	Not convertible	Not convertible
US$ Non-cumulative Series I	US 0.476563	November 24, 2001	US 25.00	November 24, 2001	February 24, 2002
Non-cumulative Series J	0.443750	May 24, 2003	25.00	May 24, 2003	November 24, 2003
US$ Non-cumulative Series K	US 0.393750	May 24, 2003	US 25.00	May 24, 2003	November 24, 2003
Non-cumulative Series N	0.293750	August 24, 2003	26.00	August 24, 2003	August 24, 2008
Non-cumulative Series O	0.343750	August 24, 2004	26.00	August 24, 2004	Not convertible
US$ Non-cumulative Series P	US 0.359375	August 24, 2004	US 26.00	August 24, 2004	Not convertible
Non-cumulative Series S	0.38125	August 24, 2006	26.00	August 24, 2006	Not convertible

(1) Non-cumulative preferential dividends on First Preferred Shares **Series E** are payable, as and when declared by the Board of Directors, on the 12th day of every month. Non-cumulative preferential dividends on **Series I, J, K, N, O, P** and **S** are payable quarterly, as and when declared by the Board of Directors, on or about the 24th day of February, May, August and November.

(2) Subject to the consent of the Superintendent of Financial Institutions Canada and the requirements of the *Bank Act*, the bank may, on or after the dates specified above, redeem First Preferred Shares. These may be redeemed (i) for cash, in the case of First Preferred Shares **Series E, I, J** and **K** equal to the redemption price as stated above, in the case of **Series N** at a price per share of $26, if redeemed during the 12-months commencing August 24, 2003, and decreasing by $0.25 each 12-month period thereafter to a price per share of $25 if redeemed on or after August 24, 2007, and in the case of **Series O** and **P** at a price per share of $26 if redeemed during the 12 months commencing August 24, 2004, and decreasing by $0.25 each 12-month period thereafter to a price per share of $25 if redeemed on or after August 24, 2008, and in the case of **Series S** at a price per share of $26 if redeemed during the 12 months commencing August 26, 2006, and decreasing by $0.25 each 12-month period thereafter to a price per share of $25 if redeemed on or after August 24, 2010, or (ii) by conversion, in the case of **Series I, J** and **K** into that number of Common Shares determined by dividing the then-applicable redemption price by the greater of $2.50 and 95% of the weighted average trading price of Common Shares at such time.

(3) Subject to the consent of the Superintendent of Financial Institutions Canada and the requirements of the *Bank Act*, the bank may purchase First Preferred Shares for cancellation at a purchase price, in the case of the **Series E, I, J** and **K** not exceeding the then-applicable redemption price specified above plus all declared and unpaid dividends, and, in the case of the **Series N, O, P** and **S** at the lowest price or prices at which, in the opinion of the Board of Directors, such shares are obtainable.

(4) Subject to the approval of The Toronto Stock Exchange, the bank may, on or after the dates specified above, convert First Preferred Shares **Series N, O, P** and **S** into Common Shares of the bank. First Preferred Shares may be converted into that number of Common Shares determined by dividing the then-applicable redemption price by the greater of $2.50 and 95% of the weighted average trading price of Common Shares at such time.

(5) Subject to the right of the bank to redeem or to find substitute purchasers, the holder may, on or after the dates specified above, convert First Preferred Shares into Common Shares of the bank. **Series I, J, K** and **N** may be converted, quarterly, into that number of Common Shares determined by dividing the then-applicable redemption price by the greater of $2.50 and 95% of the weighted average trading price of Common Shares at such time.

(6) The rights, privileges, restrictions and conditions attaching to the First Preferred Shares **Series E** were amended in 1997. Holders are entitled to receive, as and when declared by the Board of Directors, a monthly non-cumulative cash dividend that (i) floats in relation to the bank's Canadian prime rate and (ii) is adjusted upwards or downwards based on changes in market trading value. The annual dividend rate applicable to any month will in no event be less than the sum of .25% plus 55% of the average prime rate or greater than the sum of .25% plus 75% of the average prime rate.

Restrictions on the payment of dividends

The bank is prohibited by the *Bank Act* (Canada) from declaring any dividends on its preferred or common shares when the bank is, or would be placed as a result of the declaration, in contravention of the capital adequacy and liquidity regulations or any regulatory directives issued under the act. The bank may not pay dividends on its common shares at any time unless all dividends to which preferred shareholders are then entitled have been declared and paid or set apart for payment.

The bank has agreed that if RBC Capital Trust (a closed-end trust which is a subsidiary of the bank) fails to pay any required distribution on its capital trust securities, it will not declare dividends of any kind on any of its preferred or common shares.

Currently, all of the aforementioned limitations do not restrict the payment of dividends on preferred or common shares.

Regulatory capital

The bank is subject to the regulatory capital requirements defined by the Superintendent of Financial Institutions Canada (OSFI), which includes the use of Canadian GAAP. Two measures of capital strength established by OSFI, based on standards issued by the Bank for International Settlements (BIS), are risk-adjusted capital ratios and the assets-to-capital multiple.

OSFI requires Canadian banks to maintain a minimum Tier 1 and Total capital ratio of 4% and 8%, respectively. However, OSFI has also formally established risk-based capital targets for deposit-taking institutions in Canada. These targets are a Tier 1 capital ratio of at least 7% and a Total capital ratio of at least 10%. At October 31, 2001, the bank's Tier 1 and Total capital ratios were 8.7% and 11.8%, respectively (2000 – 8.6% and 12.0%, respectively).

In the evaluation of the bank's assets-to-capital multiple, OSFI specifies that total assets, including specified off-balance sheet financial instruments, should be no greater than 23 times Total capital. At October 31, 2001, the bank's assets-to-capital multiple was 17.2 times (2000 – 15.3 times).

Using guidelines issued by the Board of Governors of the Federal Reserve System in the United States and U.S. GAAP financial information, the bank's Tier 1 and Total capital ratios at October 31, 2001, were 8.1% and 11.2%, respectively (2000 – 7.8% and 11.3%, respectively). Using the same guidelines, at October 31, 2001, the bank's leverage ratio was 4.1% (2000 – 4.2%).

During the year, the bank issued $750 million (2000 – $650 million) of Trust Capital Securities (RBC TruCS), a form of innovative Tier 1 capital under both Canadian and U.S. guidelines, which are reported as Non-controlling interest in a subsidiary on the consolidated balance sheet.

Other

On October 27, 2000, the bank entered into a five-year agreement with a AAA rated reinsurer, which requires the reinsurer to purchase up to $200 million of non-cumulative first preferred shares at the October 27, 2000 market price should the general allowance for credit losses (allocated general and unallocated) be drawn down below a certain level. If these shares had been issued they would have qualified as Tier 1 capital.

Subsequent event

On September 25, 2001, the bank announced its intention to redeem First Preferred Shares Series I on November 26, 2001.

NOTE 10 Income taxes

	2001	2000	1999
Provision for income tax in income			
Current			
Canada – Federal	$ 845	$ 799	$ 580
Provincial	360	349	234
International	103	258	176
	1,308	1,406	990
Deferred			
Canada – Federal	23	38	(3)
Provincial	4	9	(3)
International	15	(41)	(10)
	42	6	(16)
	1,350	1,412	974
Income tax expense (benefit) in shareholders' equity			
Unrealized gains and losses on available for sale securities, net of hedging activities	221	20	(105)
Unrealized foreign currency translation gains and losses, net of hedging activities	(487)	(37)	213
Gains and losses on derivatives designated as cash flow hedges	(173)	–	–
Additional pension obligation	(12)	–	–
	(451)	(17)	108
Total income taxes	$ 899	$ 1,395	$ 1,082

Deferred income taxes (temporary differences)

	2001	2000	1999
Deferred income tax asset (1)			
Allowance for credit losses	$ 582	$ 514	$ 509
Deferred compensation	190	78	19
Pension related	105	44	3
Tax loss carryforwards	84	72	19
Premises and equipment	–	83	–
Deferred income	61	152	142
Other	399	223	335
	1,421	1,166	1,027
Deferred income tax liability			
Premises and equipment	(91)	–	(29)
Deferred expense	(149)	(86)	(30)
Other	(134)	(77)	(171)
	(374)	(163)	(230)
Net deferred income tax asset	$ 1,047	$ 1,003	$ 797

(1) The bank has determined that it is more likely than not that its deferred income tax asset will be realized through a combination of future reversals of temporary differences and taxable income.

Reconciliation to statutory tax rate

	2001		2000		1999	
Income taxes at Canadian statutory tax rate	$ 1,615	41.5%	$ 1,558	42.8%	$ 1,163	43.0%
Increase (decrease) in income taxes resulting from						
Lower average tax rate applicable to subsidiaries	(253)	(6.5)	(303)	(8.3)	(199)	(7.1)
Tax-exempt income from securities	(7)	(.2)	(7)	(.2)	(10)	(.4)
Other	(5)	(.1)	164	4.5	20	.5
Income taxes reported in income/effective tax rate	$ 1,350	34.7%	$ 1,412	38.8%	$ 974	36.0%

Foreign earnings of certain subsidiaries would be taxed only upon their repatriation to Canada. The bank has not recognized a deferred tax liability for these undistributed earnings as management does not currently expect them to be repatriated. Taxes that would be payable if all foreign subsidiaries' accumulated unremitted earnings were repatriated are estimated at $772 million as at October 31, 2001 (2000 – $737 million; 1999 – $729 million).

NOTE 11 Pensions and other postretirement benefits

The bank sponsors a number of defined benefit and defined contribution plans providing pension and other postretirement benefits to eligible employees.

The following tables present information related to the bank's benefit plans, including amounts recorded on the consolidated balance sheet and the components of net periodic benefit cost:

	Pension plans		Other postretirement plans (1)	
	2001	2000	**2001**	2000
Change in fair value of plan assets (2)				
Fair value of plan assets at beginning of year	**$ 4,519**	$ 4,135	**$ 67**	$ 68
Actual return on plan assets	**123**	326	**7**	3
Company contributions	**20**	13	**1**	–
Plan participant contributions	**24**	18	**–**	–
Benefits paid	**(251)**	(197)	**(2)**	(4)
Experience gain (loss)	**(599)**	266	**–**	–
Plan settlements	**–**	–	**(72)**	–
Business acquisitions	**63**	–	**–**	–
Change in foreign currency exchange rate	**6**	(12)	**–**	–
Transfers from (to) other plans	**144**	(11)	**–**	–
Other	**–**	(19)	**–**	–
Fair value of plan assets at end of year	**$ 4,049**	$ 4,519	**$ 1**	$ 67
Change in benefit obligation				
Benefit obligation at beginning of year	**$ 3,710**	$ 3,471	**$ 609**	$ 574
Service cost	**104**	98	**64**	17
Interest cost	**268**	254	**49**	42
Plan participant contributions	**18**	18	**–**	–
Actuarial loss (gain)	**55**	70	**19**	(7)
Benefits paid	**(251)**	(197)	**(22)**	(17)
Transfers to other plans	**–**	(4)	**–**	–
Plan amendments and curtailments	**31**	15	**–**	–
Plan settlements	**–**	–	**(72)**	–
Business acquisitions	**117**	–	**35**	–
Change in foreign currency exchange rate	**(9)**	(15)	**–**	–
Changes in assumptions	**1**	–	**11**	–
Benefit obligation at end of year	**$ 4,044**	$ 3,710	**$ 693**	$ 609
Funded status				
Overfunded (underfunded) status at end of year	**$ 5**	$ 809	**$ (692)**	$ (542)
Unrecognized net actuarial loss (gain)	**32**	(756)	**42**	31
Unrecognized transition obligation	**(24)**	(1)	**207**	226
Unrecognized past service cost	**205**	258	**10**	–
Other	**(48)**	(94)	**1**	–
Prepaid (accrued) benefit expense	**$ 170**	$ 216	**$ (432)**	$ (285)
Weighted average assumptions as at October 31				
Discount rate	**7.00%**	7.25%	**7.25%**	7.25%
Assumed long-term rate of return on plan assets	**7.0%**	7.0%	**4.75%**	4.75%
Rate of increase in future compensation	**4.4%**	4.4%	**4.4%**	4.4%

Pension benefit expense (3)

	2001	2000	1999
Service cost	**$ 104**	$ 98	$ 120
Interest cost	**268**	254	238
Expected return on plan assets	**(306)**	(291)	(274)
Amortization of transition asset	**(2)**	(2)	–
Amortization of prior service cost	**17**	22	(3)
Amortization of net pension surplus	**–**	–	(1)
Recognized net actuarial loss (gain)	**(45)**	(41)	13
Change in valuation allowance	**(14)**	19	(10)
Defined benefit pension expense	**22**	59	83
Defined contribution pension expense	**30**	6	6
Pension benefit expense	**$ 52**	$ 65	$ 89

Other postretirement benefits expense (1)

	2001	2000	1999
Service cost	**$ 64**	$ 17	$ 20
Interest cost	**49**	42	40
Expected return on plan assets	**(1)**	(3)	(3)
Amortization of transition adjustment	**17**	17	17
Recognized net actuarial loss	**–**	–	1
Other	**2**	–	–
Other postretirement benefits expense	**$ 131**	$ 73	$ 75

(1) Includes postretirement health, dental and life insurance. The assumed health care cost trend rates for the next year used to measure the expected cost of benefits covered for the postretirement health and life plans were 7.25% for medical and 4.75% for dental with the ultimate trend rate of 4.5%. A one percentage point increase in assumed health care cost trend rates would have increased the service and interest costs and obligation by $18 million and $85 million, respectively. A one percentage point decrease in assumed health care cost trends would have lowered the service and interest costs and the obligation by $13 million and $67 million, respectively.
(2) Plan assets include the bank's Common Shares having a fair value of $43 million (2000 – $38 million).
(3) An assumed discount rate of 7.0% (2000 – 7.25%; 1999 – 6.5%) was used to determine pension expense.

NOTE 12 Stock-based compensation

Stock Option Plan

A Stock Option Plan is offered to certain key employees and non-employee directors of the bank. Under this plan, options are periodically granted to purchase common shares at prices not less than the market price of such shares immediately prior to the grant date. The options vest over a 4-year period for employees and immediately for directors and are exercisable for periods not exceeding 10 years.

For all options issued prior to 2000, no compensation expense was recognized since on the day of the grant the option's exercise price is not less than the market price of the underlying stock. When the options are exercised, the proceeds received are credited to common shares.

Beginning in 2000, the Stock Option Plan was amended to include Stock Appreciation Rights (SARs). The amended plan entitles a participant to elect to exercise either an option or the corresponding SAR. SARs can be exchanged for a cash amount equal to the difference between the exercise price and the closing price of the common shares on the day immediately preceding the day of exercise. Up to 100% of vested options can be exercised as SARs. The bank expects participants to exercise SARs and, as a result, accounts for this plan using the terms of the SAR rather than the option. The compensation expense recorded for the year ended October 31, 2001, in respect of this plan was $23 million (2000 – $52 million).

Stock options

	2001		2000		1999	
	Number of options (000s)	Weighted average exercise price	Number of options (000s)	Weighted average exercise price	Number of options (000s)	Weighted average exercise price
Outstanding at beginning of year	**25,880**	**$ 33.61**	20,966	$ 32.42	15,422	$ 28.66
Granted	**7,949**	**44.46**	8,286	33.09	6,828	39.01
Exercised – Common shares	**(2,819)**	**28.77**	(2,700)	22.05	(953)	17.83
– SARs	**(259)**	**33.55**	–	–	–	–
Cancelled	**(593)**	**37.82**	(672)	36.10	(331)	35.50
Outstanding at end of year	**30,158**	**$ 36.84**	25,880	$ 33.61	20,966	$ 32.42
Exercisable at end of year	**12,895**	**$ 32.62**	8,881	$ 30.29	5,988	$ 25.29
Available for grant	**20,289**		25,849		8,463	

Range of exercise prices

	Options outstanding			Options exercisable	
	Number outstanding (000s)	Weighted average exercise price	Weighted average remaining contractual life	Number exercisable (000s)	Weighted average exercise price
$14.46–$15.68	**1,392**	**$ 15.59**	**4.9**	**1,392**	**$ 15.59**
$24.80–$28.25	**3,959**	**25.93**	**7.5**	**3,200**	**25.40**
$30.00–$39.64	**18,845**	**36.81**	**8.1**	**8,213**	**38.18**
$43.59–$50.72	**5,962**	**49.17**	**10.0**	**90**	**46.49**
Total	**30,158**	**$ 36.84**	**8.3**	**12,895**	**$ 32.62**

Pro forma net income and earnings per share

FAS 123, *Accounting for Stock-Based Compensation*, permits either the fair value based method of accounting for an employee stock option plan, or the intrinsic value based method provided an entity makes pro forma disclosures of net income and earnings per share, as if the fair value method had been applied.

The bank has elected to provide pro forma disclosures, which demonstrate the effect if the bank had adopted the fair value based method of measuring outstanding stock options in 2001, 2000 and 1999 as indicated below:

	As reported			Pro forma (1)		
	2001	2000	1999	2001	2000	1999
Net income	$ 2,435	$ 2,208	$ 1,725	$ 2,415	$ 2,185	$ 1,699
Earnings per share	3.58	3.42	2.50	3.56	3.38	2.46
Diluted earnings per share	3.55	3.40	2.48	3.53	3.36	2.44

(1) Compensation expense under the fair value based method is recognized over the vesting period of the related stock options. Accordingly, the pro forma results of applying this method may not be indicative of future amounts.

In determining the pro forma disclosures above, the fair value of options granted was estimated on the date of grant using an option pricing model with the following assumptions: (i) risk-free interest rate of 5.86% (2000 – 6.04%; 1999 – 5.10%), (ii) expected option life of 10 years, (iii) expected volatility of 24% (2000 – 22%; 1999 – 23%) and (iv) expected dividends of 2.67% (2000 – 2.60%; 1999 – 2.80%). The fair value of each option granted was $14.78 (2000 – $10.26; 1999 – $10.93).

NOTE 12 Stock-based compensation (continued)

Employee Share Ownership Plans

The bank offers a Royal Employee Savings and Share Ownership Plan (RESSOP) to its employees, whereby the bank contributes 50% of employees' contributions to a maximum of 3% of the employee's salary in the form of common shares. The bank contributed $39 million (2000 – $39 million; 1999 – $40 million), under the terms of RESSOP, towards the purchase of common shares. As at October 31, 2001, an aggregate of 15,329,595 common shares were held under RESSOP.

A Restricted Share Ownership Plan is offered to certain employees of the bank. Under this plan, common shares are purchased for employees. The common shares are held in trust, and vest over two to three years. The value of the restricted shares as at October 31, 2001, was $2 million.

Deferred Share Plans

A Deferred Share Unit Plan is offered to executive officers and non-employee directors of the bank. Under this plan, each officer or director may choose to receive all or a percentage of their annual incentive bonus or fee in the form of deferred share units (DSUs). This election to participate in the plan must be made prior to the beginning of the fiscal year. The DSUs accumulate additional DSUs at the same rate as dividends on common shares. Officers and directors are not allowed to convert the DSUs until termination or retirement. The value of the DSUs, when converted to cash, will be equivalent to the market value of the common shares at the time the conversion takes place. The value of the DSUs as at October 31, 2001, was $52 million (2000 – $26 million; 1999 – $20 million). The compensation expense recorded for the year ended October 31, 2001, in respect of this plan was $8 million.

A Deferred Bonus Plan is offered to certain key employees of RBC Capital Markets. Under this plan, a percentage of each employee's annual incentive bonus is deferred and accumulates dividends at the same rate as dividends on common shares. The employee will receive the deferred bonus in equal amounts on the following three year-end dates. The value of the deferred bonus paid will be equivalent to the original deferred bonus adjusted for dividends and changes in the market value of common shares at the time the bonus is paid. The value of the deferred bonus as at October 31, 2001, was $128 million (2000 – $89 million; 1999 – $26 million). The compensation expense recovery for the year ended October 31, 2001, in respect of this plan was $5 million.

Deferred Share Plans are offered to certain key employees of RBC Investments. Under these plans, a percentage of each employee's year-end incentive bonus is deferred in the form of common shares. The shares are held in trust and vest over three years. The value of the deferred shares as at October 31, 2001, was $14 million.

Retention Plan – RBC Dain Rauscher

On the acquisition of Dain Rauscher, certain key employees of Dain Rauscher were offered retention payments totalling $318 million to be paid out evenly over expected service periods of between three and four years. Payments to participants of the plan are based on the market value of common shares on the vesting date. The compensation expense recorded for the year ended October 31, 2001, in respect of this plan was $143 million.

Other

A mid-term compensation plan is offered to certain senior executive officers of the bank. Under this plan, share units that vest evenly over three years are granted to participants of the plan. Payments under the plan will be made each year based on the market value of the common shares on the vesting date. The value of the share units as at October 31, 2001, was $21 million. The compensation expense recorded for the year ended October 31, 2001, in respect of this plan was $8 million.

NOTE 13 Restructuring charges

During the year, the bank recorded $91 million of restructuring costs in the consolidated statement of income as a result of the acquisition of Centura Banks, Inc. There were no restructuring charges in 2000.

	Balance at beginning of year	2001 Additions	Amount utilized	**Balance at end of year**
Human resources	$ 22	$ 22	$ 36	**$ 8**
Occupancy	21	–	17	**4**
Equipment	2	42	43	**1**
Other	4	27	13	**18**
	$ 49	$ 91	$ 109	**$ 31**

NOTE 14 Earnings per share

	2001	2000	1999
Basic earnings per share			
Net income	$ 2,435	$ 2,208	$ 1,725
Preferred share dividends	(135)	(134)	(157)
Net income available to common shareholders	$ 2,300	$ 2,074	$ 1,568
Average number of common shares outstanding	641,516	606,389	626,158
	$ 3.58	$ 3.42	$ 2.50
Diluted earnings per share			
Net income available to common shareholders	$ 2,300	$ 2,074	$ 1,568
Effect of assumed conversions (1)	1	2	2
Net income adjusted for diluted computation	$ 2,301	$ 2,076	$ 1,570
Weighted average number of shares outstanding	641,516	606,389	626,158
Convertible Class B and C shares (1)	363	736	2,708
Stock options (2)	5,337	2,740	3,439
Weighted average diluted number of shares outstanding	647,216	609,865	632,305
	$ 3.55	$ 3.40	$ 2.48

(1) The convertible shares include the Class B and C shares issued by the bank's wholly owned subsidiary Royal Bank DS Holding Inc., on the acquisition of Richardson Greenshields Limited on November 1, 1996. The Class B shares are exchangeable into Royal Bank of Canada Common Shares, while the exchange of the Class C shares is determined based on the bank's average Common Share price during the 20 days prior to the date the exchange is made. During the year the bank exchanged 36,527 (2000 – 4,701; 1999 – 4,606,341) Class B shares and 77,956 (2000 – 8,008,712; 1999 – nil) Class C shares for 13,621 (2000 – 1,667,334; 1999 – 9,579,166) Common Shares.

(2) The dilutive effect of stock options was computed using the treasury stock method. This method computes the number of incremental shares by assuming the outstanding stock options are (i) exercised and (ii) then reduced by the number of shares assumed to be repurchased from the issuance proceeds, using the average market price of our common stock for the period. Excluded from the computation of diluted earnings per share were average options outstanding of 7,862 with an exercise price of $50.72 and average options outstanding of 1,956 with an exercise price of $49.03 (2000 – 6,153,507 at $39.64; 6,589,464 at $39.01; 2,639 at $38.22; and 393 at $43.59; 1999 – 6,355,830 at $39.64 and 6,237,862 at $39.01) as the options' exercise prices were greater than the average market price of the bank's common stock.

NOTE 15 Commitments and contingencies

Financial instruments with contractual amounts representing credit risk

The primary purpose of these commitments is to ensure that funds are available to a client as required. The bank's policy for requiring collateral security with respect to these instruments and the types of collateral security held is generally the same as for loans.

Guarantees and standby letters of credit, which represent irrevocable assurances that the bank will make payments in the event that a client cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the bank on behalf of a client authorizing a third party to draw drafts on the bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipment of goods to which they relate.

In securities lending transactions, the bank acts as an agent for the owner of a security, who agrees to lend the security to a borrower for a fee, under the terms of a pre-arranged contract. The borrower must fully collateralize the security loan at all times.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, bankers' acceptances, guarantees or letters of credit.

Uncommitted amounts represent an amount for which the bank retains the option to extend credit to a borrower.

A note issuance facility represents an underwriting agreement that enables a borrower to issue short-term debt securities. A revolving underwriting facility represents a note issuance facility that can be accessed for a specified period of time.

Financial instruments with contractual amounts representing credit risk

	2001	2000
Guarantees and standby letters of credit	$ 13,391	$ 13,658
Documentary and commercial letters of credit	750	456
Securities lending	21,377	20,333
Commitments to extend credit		
Original term to maturity of 1 year or less	44,179	38,853
Original term to maturity of more than 1 year	39,960	41,599
Uncommitted amounts	53,750	59,113
Note issuance/revolving underwriting facilities	132	155
	$ 173,539	$ 174,167

NOTE 15 Commitments and contingencies (continued)

Lease commitments

Minimum future rental commitments for premises and equipment under long-term non-cancellable leases for the next five years and thereafter are shown below.

Lease commitments

2002	$ 385
2003	350
2004	315
2005	268
2006	307
Thereafter	853
Total	$ 2,478

Litigation

Various legal proceedings are pending that challenge certain practices or actions of the bank and its subsidiaries. Many of these proceedings are loan-related and are in reaction to steps taken by the bank and its subsidiaries to collect delinquent loans and enforce rights in collateral securing such loans. Management considers that the aggregate liability resulting from these proceedings will not be material.

Pledged assets

Securities with a carrying value of $46.4 billion (2000 – $27.1 billion) have been pledged as collateral for various types of funding transactions including obligations related to assets sold under repurchase agreements and obligations related to securities sold short. Securities owned that are pledged as collateral that can be sold or repledged by the secured party are reported in Trading account securities at $3.6 billion and Available for sale securities at $2.6 billion on the consolidated balance sheet. Included in the securities pledged are assets with a carrying value of $2.6 billion (2000 – $2.4 billion) that have been deposited as collateral in order to participate in clearing and payment systems and depositories or to have access to the facilities of central banks in foreign jurisdictions.

The fair value of collateral accepted that can be sold or repledged by the bank totalled $52.9 billion. Such collateral is generally obtained under reverse repurchase and securities borrowing agreements. Of this collateral, $41.9 billion has been sold or repledged, generally as collateral under repurchase agreements or to cover short sales.

NOTE 16 Derivative financial instruments

Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity or commodity instrument or index.

Derivative product types

The bank uses the following derivative financial instruments for both trading and non-trading purposes.

Swaps are transactions in which two parties exchange cash flows on a specified notional amount for a predetermined period. For interest rate swaps, fixed and floating interest payments are exchanged based on a notional amount. Cross currency swaps involve the exchange of fixed or floating interest payments in one currency for the receipt of fixed or floating interest payments in another currency. Cross currency interest rate swaps involve the exchange of both interest and principal amounts in two different currencies.

Forwards and futures are contractual obligations to buy or sell a financial instrument on a future date at a specified price. Forward contracts are effectively tailor-made agreements that are transacted between counterparties in the over-the-counter market, whereas futures are standardized contracts that are transacted on regulated exchanges.

Options are contractual agreements under which the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or sell (put option), by or at a set date, a specified amount of a financial instrument at a predetermined price. The seller receives a premium from the purchaser for this right.

Derivatives held or issued for trading purposes

Most of the bank's derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to clients to enable them to transfer, modify or reduce current or expected risks. Trading involves market-making, positioning and arbitrage activities. Market-making involves quoting bid and offer prices to other market participants with the intention of generating revenues based on spread and volume. Positioning involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage activities involve identifying and profiting from price differentials between markets and products. The bank does not deal, to any significant extent, in leveraged derivative transactions. These transactions contain a multiplier which, for any given change in market prices, could cause the change in the transaction's fair value to be significantly different from the change in fair value that would occur for a similar derivative without the multiplier.

Derivatives held or issued for non-trading purposes

The bank also uses derivatives in connection with its own asset/liability management activities, which include hedging and investment activities.

Interest rate swaps are used to adjust exposure to interest rate risk by modifying the repricing or maturity characteristics of existing and/or anticipated assets and liabilities. Purchased interest rate options are used to hedge redeemable deposits and other options embedded in consumer products. Written options are used in the bank's asset/liability management activities when specifically linked to a purchased option in the form of a collar.

The bank's overall interest rate risk management objective is to minimize significant unplanned fluctuations in earnings and cash flows caused by interest rate volatility. Interest rate fluctuations will either cause assets and liabilities to appreciate or depreciate in market value or cause a variability in cash flows. In a fair value hedge, gains or losses on derivatives that are linked to these assets and liabilities will substantially offset the unrealized appreciation or depreciation. In a cash flow hedge, derivatives linked to the assets and liabilities will reduce the variability of cash flows resulting from interest rate fluctuations.

The bank may also choose to enter into derivative transactions to economically hedge certain business strategies that do not otherwise qualify for hedge accounting, or where hedge accounting is not considered economically feasible to implement. In such circumstances, volatility from interest rate movements is reflected in Non-interest revenue.

Adoption of FAS 133

The bank adopted Statement of Financial Accounting Standards, *Accounting for Derivative Instruments and Hedging Activities* (FAS 133), as amended by FAS 138, on November 1, 2000, and recorded a cumulative transition adjustment gain of $20 million in Net income and $60 million in Other comprehensive income. The adjustment to Net income comprised $10 million to recognize the ineffective portions of fair value hedges and $10 million to recognize the fair value of derivatives not qualifying for hedge accounting. The adjustment to Other comprehensive income of $60 million comprises $57 million to recognize at fair value all derivatives that are designated as cash flow hedges, $4 million to recognize at fair value securities reclassified from Held to maturity to Available for sale, and a loss of $1 million for derivatives hedging the net foreign currency investments. Of the $57 million recorded in Other comprehensive income for cash flow hedges, a net gain of $24 million has been reclassified to Net income during 2001.

Fair value hedge

For the year ended October 31, 2001, the ineffective portions recognized in Non-interest revenue amounted to a net unrealized loss of $11 million, excluding the transition gain recorded on adoption of FAS 133. All components of each derivative's change in fair value have been included in the assessment of fair value hedge effectiveness.

The bank did not hedge any firm commitments for the year ended October 31, 2001.

Cash flow hedge

For the year ended October 31, 2001, a net unrealized loss of $250 million, excluding the transition gain on adoption of FAS 133, was recorded in Other comprehensive income for the effective portion of changes in fair value of derivatives designated as cash flow hedges. The amounts recognized as Other comprehensive income are reclassified to Net income in the periods in which Net income is affected by the variability in cash flows of the hedged item. Of the $250 million recognized as Other comprehensive income, a net loss of $24 million was reclassified to Net income during the year. A net loss of $81 million deferred in Accumulated other comprehensive income as at October 31, 2001, is expected to be reclassified to Net income during the next 12 months.

For the year ended October 31, 2001, a net unrealized gain of $20 million was recognized in Non-interest revenue for the ineffective portions of cash flow hedges. All components of each derivative's change in fair value have been included in the assessment of cash flow hedge effectiveness.

The bank did not hedge any forecasted transactions for the year ended October 31, 2001.

Derivatives – Notional amounts and replacement cost

The following tables provide the notional amounts and gross positive replacement cost of the bank's derivative transactions. Notional amounts, which are off-balance sheet, serve as a point of reference for calculating payments and are a common measure of business volume. The gross replacement cost of derivatives represents the total current replacement value of all outstanding transactions in a gain position, before factoring in the impact of master netting agreements.

Derivative-related credit risk

Credit risk from derivative transactions is generated by the potential for the counterparty to default on its contractual obligations when one or more transactions have a positive market value to the bank. This market value is referred to as replacement cost since it is an estimate of what it would cost to replace transactions at prevailing market rates if a default occurred.

For internal risk management purposes, the credit risk arising from a derivative transaction is defined as the sum of the replacement cost plus an add-on that is an estimate of the potential change in the market value of the transaction through to maturity. The add-on is determined by statistically based models that project the expected volatility of the variable(s) underlying the derivative, whether interest rate, foreign exchange rate, equity or commodity price. Both the replacement cost and the add-on are continually re-evaluated over the life of each transaction to ensure that sound credit risk valuations are used.

Netting is a technique that can reduce credit exposure from derivatives and is generally facilitated through the use of master netting agreements. The two main categories of netting are close-out netting and settlement netting. Under the close-out netting provision, if the counterparty defaults, the bank has the right to terminate all transactions covered by the master agreement at the then-prevailing market values and to sum the resulting market values, offsetting negative against positive values, to arrive at a single net amount owed by either the counterparty or the bank. Under the settlement netting provision, all payments and receipts in the same currency and due on the same day between specified pairs of bank and counterparty units are netted, generating a single payment in each currency, due either by the bank or the counterparty unit. The bank actively encourages counterparties to enter into master netting agreements. However, measurement of the bank's credit exposure arising out of derivative transactions is not reduced to reflect the effects of netting unless the enforceability of that netting is supported by appropriate legal analysis as documented in bank policy.

To further manage derivative-related counterparty credit exposure, the bank enters into agreements containing mark-to-market cap provisions with some counterparties. Under such provisions, the bank has the right to request that the counterparty pay down or collateralize the current market value of its derivatives position with the bank. The use of collateral does not currently represent a significant credit mitigation technique for the bank in managing derivative-related credit risk.

NOTE 16 Derivative financial instruments (continued)

The bank subjects its derivative-related credit risks to the same credit approval, limit and monitoring standards that it uses for managing other transactions that create credit exposure. This includes evaluation of counterparties as to creditworthiness, and managing the size, diversification and maturity structure of the portfolio. Credit utilization for all products is compared with established limits on a continual basis and is subject to a standard exception reporting process. The bank utilizes a single internal rating system for all credit risk exposure. In most cases, these internal ratings approximate the external risk ratings of public rating agencies. The table below shows replacement cost, both before and after the impact of netting, of the bank's derivatives by risk rating and by counterparty type. During 2001 and 2000, neither the bank's actual credit losses arising from derivative transactions nor the level of impaired derivative contracts were significant.

Replacement cost of derivative financial instruments by risk rating and by counterparty type (1)

	Risk rating (2)					Counterparty type (3)			
As at October 31, 2001	AAA, AA	A	BBB	BB or lower	Total	Banks	OECD governments	Other	Total
Gross positive replacement cost (4)	$ 15,558	$ 9,981	$ 2,541	$ 701	$ 28,781	$ 18,770	$ 1,892	$ 8,119	$ 28,781
Impact of master netting agreements	(11,975)	(5,659)	(1,026)	(172)	(18,832)	(15,118)	–	(3,714)	(18,832)
Replacement cost (after netting agreements)	$ 3,583	$ 4,322	$ 1,515	$ 529	$ 9,949	$ 3,652	$ 1,892	$ 4,405	$ 9,949
Replacement cost (after netting agreements) – 2000	$ 4,275	$ 4,110	$ 1,346	$ 334	$ 10,065	$ 4,029	$ 1,846	$ 4,190	$ 10,065

(1) As at November 1, 2000, derivatives embedded in financial instruments as well as certain warrants and loan commitments disclosed as derivatives are required to be recorded at fair value. The replacement cost of $49 million is excluded from these amounts.
(2) The bank's internal risk ratings for major counterparty types approximate those of public rating agencies. Ratings of AAA, AA, A and BBB represent investment grade ratings and ratings of BB and lower represent non-investment grade ratings.
(3) Counterparty type is defined in accordance with the capital adequacy requirements of the Superintendent of Financial Institutions Canada.
(4) Represents the total current replacement value of all outstanding contracts in a gain position, before factoring in the impact of master netting agreements.

Notional amount of derivatives by term to maturity and replacement cost (1)

	Term to maturity			2001				2000		
	Within 1 year	**1 to 5 years**	**Over 5 years** (2)	**Total**	**Trading**	**Other than trading**	**Replacement cost** (3)	Trading	Other than trading	Replacement cost (3)
Over-the-counter (OTC) contracts										
Interest rate contracts										
Forward rate agreements	**$ 16,700**	**$ 75,053**	**$ 3,925**	**$ 95,678**	**$ 95,678**	**$ –**	**$ 108**	$ 16,518	$ –	$ 7
Swaps	**201,031**	**359,441**	**137,430**	**697,902**	**628,735**	**69,167**	**17,568**	477,038	53,614	4,517
Options purchased	**6,549**	**7,838**	**5,514**	**19,901**	**19,787**	**114**	**416**	31,564	131	168
Options written	**10,783**	**6,570**	**4,824**	**22,177**	**22,177**	**–**	**–**	32,306	332	–
Foreign exchange contracts										
Forward contracts	**511,102**	**30,982**	**4,352**	**546,436**	**528,467**	**17,969**	**6,839**	540,790	14,077	10,878
Cross currency swaps	**1,064**	**2,934**	**4,620**	**8,618**	**8,618**	**–**	**518**	4,836	452	180
Cross currency interest rate swaps	**17,391**	**28,194**	**20,616**	**66,201**	**63,405**	**2,796**	**1,384**	49,186	8,574	2,456
Options purchased	**45,984**	**3,168**	**2**	**49,154**	**48,542**	**612**	**721**	47,212	188	934
Options written	**50,969**	**3,127**	**37**	**54,133**	**54,133**	**–**	**–**	53,275	188	–
Other contracts (4)	**16,753**	**25,549**	**2,418**	**44,720**	**41,122**	**3,598**	**1,227**	16,415	–	1,423
Exchange-traded contracts										
Interest rate contracts										
Futures – long positions	**16,046**	**4,235**	**38**	**20,319**	**20,319**	**–**	**–**	14,544	430	–
Futures – short positions	**39,089**	**4,211**	**19**	**43,319**	**43,232**	**87**	**–**	19,949	800	–
Options purchased	**5,615**	**7,737**	**–**	**13,352**	**13,352**	**–**	**–**	12,117	–	–
Options written	**11,230**	**849**	**–**	**12,079**	**12,079**	**–**	**–**	18,909	–	–
Foreign exchange contracts										
Futures – long positions	**348**	**–**	**–**	**348**	**348**	**–**	**–**	535	–	–
Futures – short positions	**144**	**–**	**–**	**144**	**144**	**–**	**–**	17	–	–
Other contracts (4)	**47,270**	**10,860**	**–**	**58,130**	**58,130**	**–**	**–**	49,025	–	–
	$ 998,068	**$ 570,748**	**$ 183,795**	**$1,752,611**	**$1,658,268**	**$ 94,343**	**28,781**	$1,384,236	$ 78,786	20,563
Impact of master netting agreements										
With intent to settle net or simultaneously (5)							**(39)**			(27)
Without intent to settle net or simultaneously (6)							**(18,793)**			(10,471)
							$ 9,949			$ 10,065

(1) As at November 1, 2000, derivatives embedded in financial instruments as well as certain warrants and loan commitments disclosed as derivatives are required to be recorded at fair value. The notional amount of $1,693 million and replacement cost of $49 million are excluded from these amounts.
(2) Includes contracts maturing in over 10 years with a notional value of $19,637 million and related gross positive replacement cost of $950 million.
(3) Represents the total current replacement value of all outstanding contracts in a gain position, before factoring in the impact of master netting agreements. Exchange-traded contracts are excluded from this presentation as the credit risk associated with these instruments is minimal since they are settled in cash on a daily basis. Written options are excluded as they represent obligations of the bank and as such do not attract credit risk.
(4) Comprises precious metals, commodity, equity-linked and credit derivative contracts.
(5) Impact of offsetting credit exposures on contracts where the bank both has a legally enforceable master netting agreement in place and intends to settle the contracts on either a net basis or simultaneously.
(6) Additional impact of offsetting credit exposures on contracts where the bank has a legally enforceable master netting agreement in place but does not intend to settle the contracts on a net basis or simultaneously.

NOTE 17 Concentrations of credit risk

Concentrations of credit risk exist if a number of clients are engaged similar activities, or are located in the same geographic region or have comparable economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the bank's performance to developments affecting a particular industry or geographic location. Management does not believe that the concentrations described below are unusual.

	2001									2000								
	Canada	%	United States	%	Europe	%	Other countries	%	Total	Canada	%	United States	%	Europe	%	Other countries	%	Total
On-balance sheet assets																		
Total loans (1)	$141,569	78%	$ 25,944	14%	$ 7,782	4%	$ 5,805	4%	$181,100	$141,400	84%	$ 13,415	8%	$ 5,871	4%	$ 7,126	4%	$167,812
Off-balance sheet credit instruments																		
Financial instruments with contractual amounts representing credit risk																		
Committed and uncommitted amounts to extend credit (2)	$ 76,832	56%	$ 43,508	32%	$ 14,465	10%	$ 3,084	2%	$137,889	$ 68,172	49%	$ 46,539	33%	$ 15,940	11%	$ 8,914	7%	$139,565
Other financial instruments	20,990	59	9,893	28	4,436	12	331	1	35,650	20,975	61	10,505	30	2,705	8	417	1	34,602
	$ 97,822	56%	$ 53,401	31%	$ 18,901	11%	$ 3,415	2%	$173,539	$ 89,147	51%	$ 57,044	33%	$ 18,645	11%	$ 9,331	5%	$174,167
Derivatives before master netting agreements (3), (4)	$ 6,899	24%	$ 9,154	32%	$ 11,741	41%	$ 987	3%	$ 28,781	$ 4,515	22%	$ 5,798	28%	$ 8,618	42%	$ 1,632	8%	$ 20,563

(1) The largest concentrations in Canada are Ontario at 39% (2000 – 36%) and British Columbia at 12% (2000 – 15%). No industry accounts for more than 10% of total loans.
(2) Of the commitments to extend credit, the largest industry concentration relates to financial institutions at 34% (2000 – 37%), mining and energy at 15% (2000 – 13%), transportation at 10% (2000 – 11%) and manufacturing at 10% (2000 – 10%).
(3) Represents replacement cost of which the largest concentration by counterparty type is with banks at 64% (2000 – 61%).
(4) As at November 1, 2000, derivatives embedded in financial instruments as well as certain warrants and loan commitments disclosed as derivatives are required to be recorded at fair value. The replacement cost of $49 million is excluded from these amounts.

NOTE 18 Estimated fair value of financial instruments

The estimated fair values are designed to approximate values at which these instruments could be exchanged in a current transaction between willing parties. However, many of the financial instruments lack an available trading market and therefore, fair values are based on estimates using net present value and other valuation techniques, which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates, which reflect varying degrees of risk. Furthermore, due to the use of subjective judgment and uncertainties, the aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

The estimated fair values disclosed below do not reflect the value of assets and liabilities that are not considered financial instruments such as "premises and equipment." In addition, the values of other non-financial assets and liabilities, such as intangible values of client relationships, have been excluded.

Financial instruments

	2001			2000		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Financial assets						
Cash resources (1)	$ 17,516	$ 17,535	$ 19	$ 16,408	$ 16,408	$ –
Securities (2)	81,100	81,100	–	63,461	63,468	7
Assets purchased under reverse repurchase agreements (1)	35,870	35,870	–	18,303	18,303	–
Loans (3)	178,822	183,186	4,364	165,941	166,846	905
Other assets (4)	40,745	40,745	–	26,581	26,689	108
Financial liabilities						
Deposits (5)	235,687	238,092	(2,405)	206,237	207,727	(1,490)
Acceptances (1)	9,923	9,923	–	11,628	11,628	–
Obligations related to securities sold short (1)	16,037	16,037	–	12,873	12,873	–
Obligations related to assets sold under repurchase agreements (1)	20,864	20,864	–	9,005	9,005	–
Other liabilities (4)	53,089	53,089	–	34,136	34,136	–
Subordinated debentures (6)	6,662	6,646	16	5,825	5,809	16

(1) Due to their short-term maturity, the carrying values of certain on-balance sheet financial instruments are assumed to approximate their fair values.
(2) The estimated fair values are provided in the Securities note to the consolidated financial statements (note 4). These are based on quoted market prices, when available. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities.
(3) For certain variable rate loans that reprice frequently, fair values are assumed to be equal to the carrying values. The fair values of other loans are estimated through a discounted cash flow calculation that applies market interest rates currently charged for similar new loans to expected maturity amounts.
(4) The carrying values of Other assets and Other liabilities approximate their fair values.
(5) The fair values of deposits with no stated maturity are assumed to be equal to their carrying values. The estimated fair values of fixed-rate deposits are determined by discounting the expected cash flows, using market interest rates currently offered for deposits of similar remaining maturities (adjusted for early redemptions where appropriate).
(6) The fair values of the debentures are based on quoted market prices for similar issues, or current rates offered to the bank for debt of the same remaining maturity.

NOTE 18 Estimated fair value of financial instruments (continued)

Derivative financial instruments (1), (2)

	2001				2000	
	Average fair value for the year ended (3)		Year-end fair value		Year-end fair value	
	Positive	Negative	Positive	Negative	Positive	Negative
Held or issued for trading purposes						
Interest rate contracts						
Forward rate agreements	$ 33	$ 24	$ 108	$ 79	$ 7	$ 4
Swaps	7,507	8,311	16,211	16,692	3,845	4,574
Options purchased	258	–	416	–	168	–
Options written	–	203	–	325	–	136
	7,798	8,538	16,735	17,096	4,020	4,714
Foreign exchange contracts						
Forward contracts	9,239	8,339	6,800	5,868	10,683	9,722
Cross currency swaps	265	222	518	315	91	125
Cross currency interest rate swaps	1,770	1,718	1,309	1,975	2,164	1,830
Options purchased	779	–	715	–	934	–
Options written	–	731	–	560	–	950
	12,053	11,010	9,342	8,718	13,872	12,627
Other contracts (4)	1,418	1,667	928	2,651	1,423	1,178
	$ 21,269	$ 21,215	27,005	28,465	19,315	18,519
Held or issued for other than trading purposes						
Interest rate contracts						
Swaps			1,357	1,104	672	256
Options written			–	–	–	7
			1,357	1,104	672	263
Foreign exchange contracts						
Forward contracts			39	313	195	310
Cross currency swaps			–	–	89	89
Cross currency interest rate swaps			75	50	292	252
Options purchased			6	–	–	–
			120	363	576	651
Other contracts (4)			299	51	–	–
			1,776	1,518	1,248	914
Total gross fair values before netting			28,781	29,983	20,563	19,433
Impact of master netting agreements						
With intent to settle net or simultaneously (5)			(39)	(39)	(27)	(27)
Without intent to settle net or simultaneously (6)			(18,793)	(18,793)	(10,471)	(10,471)
Total			$ 9,949	$ 11,151	$ 10,065	$ 8,935

(1) The fair values of derivatives are presented on a gross basis before the impact of legally enforceable master netting agreements. The fair values of derivatives are determined using various methodologies including: quoted market prices, where available; prevailing market rates for instruments with similar characteristics and maturities; net present value analysis or other pricing models as appropriate.

(2) As at November 1, 2000, derivatives embedded in financial instruments as well as certain warrants and loan commitments disclosed as derivatives are required to be recorded at fair value. The fair value of $49 million is excluded from the amounts in this table.

(3) Average fair value amounts are calculated based on monthly balances.

(4) Comprises precious metals, commodity, equity-linked and credit derivative contracts.

(5) Impact of offsetting credit exposures on contracts where the bank both has a legally enforceable master netting agreement in place and intends to settle the contracts on either a net basis or simultaneously.

(6) Additional impact of offsetting credit exposures on contracts where the bank has a legally enforceable master netting agreement in place but does not intend to settle the contracts on a net basis or simultaneously.

Consolidated balance sheet

As at October 31 (C$ millions)	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Assets											
Cash resources	**$ 17,516**	$ 16,408	$ 23,042	$ 16,395	$ 21,392	$ 23,567	$ 17,710	$ 16,449	$ 10,874	$ 10,938	$ 8,820
Securities	**81,100**	63,461	52,736	42,538	33,343	41,261	33,220	27,695	24,011	16,146	13,436
Reverse repurchase agreements	**35,870**	18,303	20,272	19,907	18,642	11,446	4,591	5,259	5,304	607	600
Loans											
Residential mortgage	**67,444**	62,984	59,242	56,468	53,369	48,120	45,131	44,109	43,781	32,609	29,105
Personal	**32,511**	28,019	25,255	22,761	20,864	18,440	16,923	16,508	16,487	15,462	14,775
Credit card	**4,283**	4,666	2,666	1,945	2,324	3,522	3,435	3,321	3,090	2,532	2,571
Business and government loans and acceptances	**76,862**	72,143	66,887	76,218	73,398	63,561	57,800	54,953	58,364	58,239	60,461
	181,100	167,812	154,050	157,392	149,955	133,643	123,289	118,891	121,722	108,842	106,912
Allowance for loan losses	**(2,278)**	(1,871)	(1,884)	(2,026)	(1,769)	(1,875)	(2,003)	(2,559)	(4,255)	(3,575)	(1,958)
	178,822	165,941	152,166	155,366	148,186	131,768	121,286	116,332	117,467	105,267	104,954
Other											
Derivative-related amounts (1)	**28,642**	19,334	15,151	30,413	14,776	8,598	12,378	–	–	–	–
Premises and equipment	**1,598**	1,216	1,274	1,872	1,696	1,785	1,870	1,975	2,057	1,914	1,921
Other assets	**18,935**	9,391	8,657	14,583	9,044	9,052	5,427	5,385	5,228	3,421	2,621
	49,175	29,941	25,082	46,868	25,516	19,435	19,675	7,360	7,285	5,335	4,542
	$ 362,483	$ 294,054	$ 273,298	$ 281,074	$ 247,079	$ 227,477	$ 196,482	$ 173,095	$ 164,941	$ 138,293	$ 132,352
Liabilities and shareholders' equity											
Deposits											
Canada	**$ 140,558**	$ 138,124	$ 129,306	$ 123,533	$ 122,721	$ 118,482	$ 114,778	$ 106,099	$ 103,755	$ 85,203	$ 80,097
International	**95,129**	68,113	58,591	56,472	50,508	43,335	28,713	29,716	26,644	27,019	24,925
	235,687	206,237	187,897	180,005	173,229	161,817	143,491	135,815	130,399	112,222	105,022
Other											
Acceptances	**9,923**	11,628	9,257	10,620	10,561	7,423	6,300	6,205	6,302	5,737	7,210
Securities sold short	**16,037**	12,873	18,740	20,488	13,062	7,063	7,128	5,569	5,362	3,628	2,650
Repurchase agreements	**20,864**	9,005	9,396	11,264	9,458	16,526	4,090	5,341	2,533	787	641
Derivative-related amounts (1)	**29,448**	18,574	15,219	29,370	14,732	9,053	12,384	–	–	–	–
Other liabilities	**24,178**	15,912	15,682	12,883	10,644	12,135	10,284	7,986	8,919	5,232	5,913
	100,450	67,992	68,294	84,625	58,457	52,200	40,186	25,101	23,116	15,384	16,414
Subordinated debentures	**6,662**	5,825	4,596	4,087	4,227	3,602	3,528	3,481	3,410	3,106	3,081
Non-controlling interest in subsidiaries	**1,479**	703	103	499	531	108	107	93	86	75	73
Shareholders' equity											
Capital stock											
Preferred	**1,990**	2,001	1,973	2,110	1,757	1,725	1,962	2,233	2,215	1,572	1,636
Common	**6,959**	3,074	3,063	2,923	2,905	2,874	2,908	2,908	2,908	2,908	2,724
Retained earnings	**9,311**	8,314	7,495	6,803	5,719	4,825	4,194	3,476	2,823	3,041	3,421
Accumulated other comprehensive income	**(55)**	(92)	(123)	22	254	326	106	(12)	(16)	(15)	(19)
	18,205	13,297	12,408	11,858	10,635	9,750	9,170	8,605	7,930	7,506	7,762
	$ 362,483	$ 294,054	$ 273,298	$ 281,074	$ 247,079	$ 227,477	$ 196,482	$ 173,095	$ 164,941	$ 138,293	$ 132,352

(1) As the information is not reasonably determinable, amounts for years prior to 1995 have not been restated to reflect the presentation of derivative-related amounts on a gross basis.

Consolidated statement of income

For the year ended October 31 (C$ millions, except per share amounts)	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Interest income											
Loans	$ 12,032	$ 11,538	$ 10,386	$ 10,426	$ 9,354	$ 9,490	$ 9,820	$ 8,693	$ 8,156	$ 8,957	$ 10,670
Securities	3,281	2,669	2,195	1,962	2,166	2,461	2,179	1,654	1,320	1,037	921
Assets purchased under reverse repurchase agreements (1)	1,163	1,078	893	1,169	568	366	237	206	91	–	–
Deposits with banks	831	824	726	750	983	891	792	454	296	396	588
	17,307	16,109	14,200	14,307	13,071	13,208	13,028	11,007	9,863	10,390	12,179
Interest expense											
Deposits	8,712	9,057	7,636	7,732	6,548	7,115	7,362	5,477	4,995	5,868	7,940
Other liabilities	1,693	1,429	1,161	1,172	1,139	1,126	792	761	567	322	209
Subordinated debentures	405	344	286	339	384	322	335	290	263	272	271
	10,810	10,830	9,083	9,243	8,071	8,563	8,489	6,528	5,825	6,462	8,420
Net interest income	6,497	5,279	5,117	5,064	5,000	4,645	4,539	4,479	4,038	3,928	3,759
Provision for credit losses	1,119	691	760	575	380	570	580	820	1,750	2,050	605
Net interest income after provision for credit losses	5,378	4,588	4,357	4,489	4,620	4,075	3,959	3,659	2,288	1,878	3,154
Non-interest revenue											
Capital market fees	1,870	1,810	1,209	1,118	1,172	764	434	567	456	356	258
Trading revenues	1,820	1,540	1,106	752	606	368	362	345	414	387	238
Investment management and custodial fees	895	684	547	495	404	319	286	278	101	82	69
Deposit and payment service charges	887	756	688	664	690	701	681	661	649	654	601
Mutual fund revenues	546	528	479	447	354	241	190	202	64	37	16
Foreign exchange revenue, other than trading	300	299	243	218	211	165	140	134	107	115	101
Card service revenues	290	420	362	305	332	282	278	258	203	183	197
Insurance revenues	263	151	174	113	102	70	104	100	61	32	31
Credit fees	237	212	189	183	169	153	156	156	152	152	162
Securitization revenues	125	104	220	226	9	–	–	–	–	–	–
Gain (loss) on sale of securities	(128)	(11)	28	343	37	107	17	49	169	14	11
Other	1,050	187	246	133	202	96	90	113	75	90	274
	8,155	6,680	5,491	4,997	4,288	3,266	2,738	2,863	2,451	2,102	1,958
Non-interest expenses											
Human resources	5,696	4,695	4,096	3,688	3,427	2,933	2,581	2,675	2,386	2,170	2,072
Occupancy	716	570	564	508	559	507	473	500	593	476	394
Equipment	713	664	677	585	605	492	506	460	473	382	335
Communications	679	695	699	665	587	523	461	450	377	372	372
Professional fees	411	267	274	286	228	165	147	113	86	88	74
Amortization of goodwill and other intangibles	288	91	70	66	63	38	38	48	35	19	18
Other	1,138	646	761	712	602	509	469	415	465	410	353
	9,641	7,628	7,141	6,510	6,071	5,167	4,675	4,661	4,415	3,917	3,618
Net income before income taxes	3,892	3,640	2,707	2,976	2,837	2,174	2,022	1,861	324	63	1,494
Income taxes	1,350	1,412	974	1,128	1,106	795	741	655	(5)	(65)	495
Net income before non-controlling interest	2,542	2,228	1,733	1,848	1,731	1,379	1,281	1,206	329	128	999
Non-controlling interest	107	20	8	76	77	49	23	37	29	21	16
Net income	$ 2,435	$ 2,208	$ 1,725	$ 1,772	$ 1,654	$ 1,330	$ 1,258	$ 1,169	$ 300	$ 107	$ 983
Preferred share dividends	135	134	157	145	131	144	164	168	154	123	103
Net income available to common shareholders	$ 2,300	$ 2,074	$ 1,568	$ 1,627	$ 1,523	$ 1,186	$ 1,094	$ 1,001	$ 146	$ (16)	$ 880
Earnings per share (loss)											
Basic	$ 3.58	$ 3.42	$ 2.50	$ 2.64	$ 2.46	$ 1.89	$ 1.74	$ 1.59	$ 0.23	$ (0.03)	$ 1.46
Diluted	3.55	3.40	2.48	2.58	2.42	1.89	1.74	1.59	0.23	(0.03)	1.45

(1) Amounts for assets purchased under reverse repurchase agreements are included in loans for 1992 and 1991.

Consolidated statement of changes in shareholders' equity

For the year ended October 31 (C$ millions)	**2001**	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Preferred shares											
Balance at beginning of year	**$ 2,001**	$ 1,973	$ 2,110	$ 1,757	$ 1,725	$ 1,962	$ 2,233	$ 2,215	$ 1,572	$ 1,636	$ 1,129
Issued	**250**	–	296	300	–	–	–	–	612	–	526
Redeemed for cancellation	**(295)**	–	(393)	–	–	(236)	(267)	–	–	(99)	(5)
Issuance costs, net of related income taxes	**(3)**	–	(9)	(7)	–	–	–	–	(11)	–	(8)
Translation adjustment	**37**	28	(31)	60	32	(1)	(4)	18	42	35	(6)
Balance at end of year	**1,990**	2,001	1,973	2,110	1,757	1,725	1,962	2,233	2,215	1,572	1,636
Common shares											
Balance at beginning of year	**3,074**	3,063	2,923	2,905	2,874	2,908	2,908	2,908	2,908	2,724	2,448
Issued	**4,009**	109	192	18	69	–	–	–	–	184	276
Issuance costs, net of related income taxes	**(12)**										
Purchased for cancellation	**(112)**	(98)	(52)	–	(38)	(34)	–	–	–	–	–
Balance at end of year	**6,959**	3,074	3,063	2,923	2,905	2,874	2,908	2,908	2,908	2,908	2,724
Retained earnings											
Balance at beginning of year (1)	**8,314**	7,495	6,803	5,719	4,825	4,194	3,476	2,839	3,041	3,421	2,893
Net income	**2,435**	2,208	1,725	1,772	1,654	1,330	1,258	1,169	300	107	983
Dividends – preferred	**(135)**	(134)	(157)	(145)	(131)	(144)	(164)	(168)	(154)	(123)	(103)
common	**(897)**	(689)	(588)	(543)	(469)	(418)	(371)	(364)	(364)	(361)	(352)
Premium paid on common shares purchased	**(397)**	(562)	(281)	–	(160)	(136)	–	–	–	–	–
Issuance costs, net of related income taxes	**(9)**	(4)	(7)	–	–	(1)	(5)	–	–	(3)	–
Balance at end of year	**9,311**	8,314	7,495	6,803	5,719	4,825	4,194	3,476	2,823	3,041	3,421
Accumulated other comprehensive income, net of related income taxes											
Unrealized gains and losses on available for sale securities (2)	**190**	(56)	(85)	56	283	349	126				
Unrealized foreign currency translation gains and losses	**(38)**	(36)	(38)	(34)	(29)	(23)	(20)	(12)	(16)	(15)	(19)
Gains and losses on derivatives designated as cash flow hedges	**(190)**										
Additional pension obligation	**(17)**	–	–	–	–	–	–	–	–	–	–
	(55)	(92)	(123)	22	254	326	106	(12)	(16)	(15)	(19)
Shareholders' equity at end of year	**$ 18,205**	$ 13,297	$ 12,408	$ 11,858	$ 10,635	$ 9,750	$ 9,170	$ 8,605	$ 7,930	$ 7,506	$ 7,762
Comprehensive income, net of related income taxes											
Net income	**$ 2,435**	$ 2,208	$ 1,725	$ 1,772	$ 1,654	$ 1,330	$ 1,258	$ 1,169	$ 300	$ 107	$ 983
Other comprehensive income											
Change in unrealized gains and losses on available for sale securities (2)	**246**	29	(141)	(227)	(66)	223	126				
Change in unrealized foreign currency translation gains and losses, net of hedging activities	**(2)**	2	(4)	(5)	(6)	(3)	(8)	4	(1)	4	(3)
Cumulative effect of initial adoption of FAS 133	**60**										
Change in gains and losses on derivatives designated as cash flow hedges	**(250)**										
Additional pension obligation	**(17)**										
Total comprehensive income	**$ 2,472**	$ 2,239	$ 1,580	$ 1,540	$ 1,582	$ 1,550	$ 1,376	$ 1,173	$ 299	$ 111	$ 980

(1) Retained earnings at the beginning of 1994 was increased by $16 million as a result of the adoption of FAS 109, *Accounting for Income Taxes.*
(2) Effective 1995, the bank adopted FAS 115, *Accounting for Certain Investments in Debt and Equity Securities.*

Risk profile

As at October 31 (C$ millions, except percentage amounts)	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Nonaccrual loans											
Beginning of year	$ 1,678	$ 1,704	$ 2,001	$ 1,819	$ 2,376	$ 2,944	$ 4,424	$ 7,582	$ 7,056	$ 3,924	$ 4,203
Net additions (reductions)	1,912	813	743	628	81	384	(255)	(1,128)	1,643	3,639	909
Charge-offs and adjustments	(1,125)	(839)	(1,040)	(446)	(638)	(952)	(1,225)	(2,030)	(1,117)	(507)	(1,188)
End of year	$ 2,465	$ 1,678	$ 1,704	$ 2,001	$ 1,819	$ 2,376	$ 2,944	$ 4,424	$ 7,582	$ 7,056	$ 3,924
As a % of loans (including acceptances)	1.4%	1.0%	1.1%	1.3%	1.2%	1.8%	2.4%	3.7%	6.2%	6.5%	3.7%
Allowance for credit losses											
Allocated specific	$ 951	$ 747	$ 786	$ 1,176	$ 932	$ 1,091	$ 1,439	$ 1,962	$ 2,667	$ 1,867	$ 449
Allocated country risk	31	28	34	40	436	444	930	940	1,107	1,383	1,509
Allocated general (1)	1,185	863	790	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total allocated (1)	2,167	1,638	1,610	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Unallocated (1)	225	337	290	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total	$ 2,392	$ 1,975	$ 1,900	$ 2,066	$ 2,118	$ 2,235	$ 2,669	$ 3,202	$ 4,324	$ 3,575	$ 1,958
Composition of allowance											
Allowance for loan losses	$ 2,278	$ 1,871	$ 1,884	$ 2,026	$ 1,769	$ 1,875	$ 2,003	$ 2,559	$ 4,255	$ 3,575	$ 1,958
Allowance for off-balance sheet and other items (2)	109	98	–	–	–	–	–	–	–	–	–
Allowance for tax-exempt securities	5	6	16	40	30	34	–	–	–	–	–
Allowance for country risk securities	–	–	–	–	319	326	666	643	69	–	–
Total	$ 2,392	$ 1,975	$ 1,900	$ 2,066	$ 2,118	$ 2,235	$ 2,669	$ 3,202	$ 4,324	$ 3,575	$ 1,958
Allowance for loan losses as a % of loans (including acceptances)	1.3%	1.1%	1.2%	1.3%	1.2%	1.4%	1.6%	2.2%	3.5%	3.3%	1.8%
Allowance for loan losses as a % of loans (including acceptances) and reverse repos	1.0	1.0	1.1	1.1	1.1	1.3	1.6	2.1	3.4	3.3	1.8
Allowance for loan losses as a % of nonaccrual loans, excluding LDCs	93	112	112	103	94	77	60	52	52	41	18
Provision for credit losses											
Allocated specific	$ 1,049	$ 571	$ 530	$ 555	$ 330	$ 470	$ 580	$ 1,070	$ 1,775	$ 2,025	$ 705
Allocated country risk	–	–	–	(80)	–	(300)	–	–	(250)	(300)	(100)
Allocated general (3)	205	73	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total allocated (3)	1,254	644	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Unallocated (3)	(135)	47	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total	$ 1,119	$ 691	$ 760	$ 575	$ 380	$ 570	$ 580	$ 820	$ 1,750	$ 2,050	$ 605
Allocated specific provisions as a % of average loans (including acceptances)	.61%	.36%	.34%	.36%	.23%	.37%	.48%	.88%	1.64%	1.90%	.67%
Allocated specific provisions as a % of average loans (including acceptances) and reverse repos	.52	.31	.30	.31	.21	.36	.46	.84	1.60	1.90	.67
Provision as a % of average loans (including acceptances)	.65	.43	.49	.37	.27	.45	.48	.67	1.61	1.93	.57
Provision as a % of average loans (including acceptances) and reverse repos	.55	.38	.43	.32	.24	.43	.46	.65	1.58	1.93	.57
Net charge-offs	$ 940	$ 677	$ 958	$ 692	$ 528	$ 1,001	$ 1,105	$ 1,979	$ 1,187	$ 547	$ 1,010
As a % of average loans	.55%	.42%	.62%	.45%	.37%	.79%	.91%	1.63%	1.09%	.51%	.96%

(1) The allocated general and the unallocated amounts totalled $850 million in 1998, $750 million in 1997, $700 million in 1996, $300 million in 1995, $300 million in 1994, $550 million in 1993, $325 million in 1992 and nil in 1991. These were not separated into the allocated general and unallocated components. The amounts prior to 1999 do not include the allocated general allowance.

(2) During 2000, the allowance for off-balance sheet and other items has been separated and reported under other liabilities. Previously, the amount was included in the allowance for loan losses.

(3) The allocated general provision and the unallocated provision totalled $230 million in 1999, $100 million in 1998, $50 million in 1997, $400 million in 1996, nil in 1995, $(250) million in 1994, $225 million in 1993, $325 million in 1992 and nil in 1991. These were not separated into the allocated general and unallocated components.

Financial highlights

(C$ millions, taxable equivalent basis, except per share and percentage amounts)	**2001**	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Performance ratios											
Return on common equity	**16.6%**	19.3%	15.3%	17.6%	18.3%	15.7%	16.2%	16.8%	2.4%	(.3)%	15.5%
Cash return on common equity (1)	**18.6**	20.2	15.9	18.3	19.1	16.2	16.8	17.6	3.0	–	15.8
Return on assets	**.73**	.78	.64	.68	.69	.65	.68	.70	.21	.08	.76
Return on assets after preferred dividends	**.69**	.73	.58	.62	.64	.58	.59	.60	.10	(.01)	.68
Net interest margin (2)	**1.97**	1.87	1.91	1.95	2.10	2.28	2.49	2.72	2.88	2.93	2.95
Non-interest revenue as a % of gross revenues	**55.5**	55.7	51.6	49.5	46.0	41.1	37.4	38.7	37.4	34.5	33.8
Average balances and year-end off-balance sheet data											
Averages											
Assets (3)	**$ 331,600**	$ 284,100	$ 270,000	$ 261,500	$ 239,800	$ 205,200	$ 183,900	$ 166,700	$ 142,500	$ 136,200	$ 130,100
Loans	**172,136**	159,957	155,635	154,954	142,349	126,849	121,069	121,741	108,562	106,376	105,231
Deposits	**221,419**	196,066	184,796	178,688	166,249	147,391	136,686	133,550	114,835	108,609	102,847
Common equity	**13,899**	10,725	10,268	9,255	8,303	7,543	6,749	5,964	6,052	6,313	5,693
Total equity	**15,935**	12,703	12,481	11,227	10,044	9,488	8,942	8,233	8,116	7,938	6,913
Assets under administration (4)	**1,337,700**	1,175,200	967,800	829,200	783,300	522,100	407,700	346,800	274,300		
Assets under management (4)	**104,800**	92,300	81,600	73,400	67,700	51,200	40,400	39,100	33,100		
Capital ratios (Cdn) (5)											
Tier 1 capital	**$ 14,851**	$ 13,567	$ 12,026	$ 11,593	$ 10,073	$ 9,037	$ 8,421	$ 7,660	$ 6,910	$ 6,740	$ 6,938
Total capital	**20,171**	19,044	16,698	16,480	14,705	12,069	11,913	11,525	10,941	10,483	10,686
Total risk-adjusted assets	**171,047**	158,364	149,078	157,064	147,672	128,163	121,350	120,158	117,043	114,298	113,975
Common equity to risk-adjusted assets	**9.4%**	7.3%	7.1%	6.2%	5.8%	6.0%	5.8%	5.3%	4.9%	5.2%	5.4%
Tier 1 capital ratio	**8.7**	8.6	8.1	7.4	6.8	7.0	6.9	6.4	5.9	5.9	6.1
Total capital ratio	**11.8**	12.0	11.2	10.5	10.0	9.4	9.8	9.6	9.3	9.2	9.4
Capital ratios (U.S.) (6)											
Tier 1 capital	**$ 13,817**	$ 12,409	$ 11,334	$ 10,796	$ 9,556	$ 8,740	$ 8,612	$ 7,660	$ 6,910	$ 6,740	$ 6,938
Total capital	**19,137**	17,898	15,991	15,990	14,666	12,245	12,399	11,525	10,941	10,483	10,686
Total risk-adjusted assets	**171,188**	158,594	149,537	157,720	149,392	128,804	120,593	120,158	117,043	114,298	113,975
Common equity to risk-adjusted assets	**9.5%**	7.2%	7.0%	6.1%	5.8%	6.0%	5.9%	5.3%	4.9%	5.2%	5.4%
Tier 1 capital ratio	**8.1**	7.8	7.6	6.8	6.4	6.8	7.1	6.4	5.9	5.9	6.1
Total capital ratio	**11.2**	11.3	10.7	10.1	9.8	9.5	10.3	9.6	9.3	9.2	9.4
Common share information											
Shares outstanding (in thousands)											
End of year	**674,021**	602,398	617,768	617,581	616,671	621,059	628,310	628,310	628,310	628,310	612,920
Average basic	**641,516**	606,389	626,158	617,324	617,812	628,242	628,310	628,310	628,310	621,086	603,614
Average diluted	**647,216**	609,865	632,305	633,626	632,052	628,242	628,310	628,310	628,310	621,086	606,530
Dividends per share	**$ 1.38**	$ 1.14	$ 0.94	$ 0.88	$ 0.76	$ 0.67	$ 0.59	$ 0.58	$ 0.58	$ 0.58	$ 0.58
Book value per share	**24.06**	18.75	16.89	15.78	14.40	12.92	11.47	10.14	9.10	9.44	9.99
Share price – High (7)	**53.25**	48.88	42.13	46.10	38.23	22.20	15.69	15.94	14.44	14.50	13.75
Low (7)	**41.60**	27.25	29.65	28.75	22.00	14.88	12.94	12.57	11.00	10.75	10.25
Close	**46.80**	48.30	31.73	35.55	37.68	22.15	15.07	14.19	13.63	12.07	13.50
Price/earnings multiple (8)	**13.4**	11.2	14.4	14.5	12.4	9.8	8.2	8.9	–	–	8.2
Dividend yield (9)	**2.9%**	3.0%	2.6%	2.4%	2.5%	3.6%	4.1%	4.1%	4.6%	4.6%	4.8%
Dividend payout ratio (10)	**39**	33	37	33	31	35	34	36	–	–	40
Number of:											
Employees (11)	**57,568**	49,232	51,891	51,776	48,816	46,205	49,011	49,208	52,745	49,628	50,547
Automated banking machines	**4,548**	4,517	4,585	4,317	4,248	4,215	4,079	3,948	3,981	3,828	3,651
Service delivery units											
Canada	**1,317**	1,333	1,410	1,422	1,453	1,493	1,577	1,596	1,731	1,661	1,645
International (12)	**724**	306	99	106	105	103	105	97	95	83	102

(1) Cash return on common equity is computed by adding back to net income the after-tax amount of amortization of goodwill and other intangibles.
(2) Net interest income as a percentage of average assets.
(3) As the information is not reasonably determinable, amounts for years prior to 1995 have not been restated to reflect the presentation of derivative-related amounts on a gross basis.
(4) Amounts prior to 1996 are as at September 30. Assets under administration and assets under management balances were not reported prior to 1993.
(5) Using guidelines issued by the Superintendent of Financial Institutions Canada and Canadian GAAP financial information.
(6) Using guidelines issued by the Board of Governors of the Federal Reserve System in the United States and U.S. GAAP financial information.
(7) Intraday high and low share prices.
(8) Average of high and low Common Share price divided by diluted earnings per share. The multiples for 1993 and 1992 are not meaningful.
(9) Dividends per Common Share divided by the average of high and low share price.
(10) Common dividends as a percentage of net income after preferred dividends. The ratios for 1993 and 1992 are not meaningful.
(11) On a full-time equivalent basis.
(12) International service delivery units include branches, specialized business centres, representative offices and agencies.

Quarterly highlights

	2001				2000			
(C$ millions, taxable equivalent basis, except per share and percentage amounts)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Statement of income								
Net interest income	$ 1,772	$ 1,715	$ 1,569	$ 1,473	$ 1,381	$ 1,300	$ 1,346	$ 1,280
Provision for credit losses	(425)	(236)	(210)	(248)	(174)	(172)	(172)	(173)
Non-interest revenue	2,265	1,963	1,940	1,987	1,720	1,711	1,717	1,532
Non-interest expenses	(2,636)	(2,598)	(2,263)	(2,144)	(2,022)	(1,914)	(1,911)	(1,781)
Income taxes	(268)	(380)	(383)	(351)	(323)	(360)	(416)	(341)
Non-controlling interest	(28)	(28)	(29)	(22)	(14)	(2)	(2)	(2)
Net income	$ 680	$ 436	$ 624	$ 695	568	$ 563	$ 562	$ 515
Cash net income (1)	$ 803	$ 518	$ 674	$ 726	594	$ 586	$ 583	$ 533
Core cash net income (1)	$ 564	$ 664	$ 674	$ 615	594	$ 586	$ 583	$ 533
Earnings per share (2)								
Basic	$ .95	$ .60	$ .96	$ 1.09	$ .89	$ .87	$ .87	$ .79
Diluted	.94	.60	.95	1.08	.88	.87	.87	.78
Cash diluted (1)	1.12	.72	1.03	1.13	.92	.91	.90	.81
Core cash diluted (1)	.78	.94	1.03	.96	.92	.91	.90	.81
Performance ratios								
Return on common equity	15.7%	10.8%	19.2%	21.9%	19.2%	19.5%	20.3%	18.4%
Cash return on common equity (1)	18.6	13.1	20.8	23.0	20.1	20.3	21.1	19.1
Core cash return on common equity (1)	12.9	17.0	20.8	19.3	20.1	20.3	21.1	19.1
Return on assets	.78	.50	.78	.89	.77	.79	.82	.74
Return on assets after preferred dividends	.74	.46	.74	.85	.72	.74	.78	.69
Net interest margin (3)	2.03	1.98	1.97	1.89	1.87	1.81	1.95	1.84
Non-interest revenue as a % of gross revenues	56.1	53.4	55.3	57.4	55.5	56.8	56.1	54.5
Balance sheet								
Assets								
Cash resources and securities	$ 98,616	$ 95,684	$ 87,408	$ 83,634	$ 79,869	$ 78,792	$ 72,605	$ 71,619
Reverse repurchase agreements	35,870	25,101	26,453	21,713	18,303	15,100	19,419	15,284
Residential mortgages	67,444	66,499	64,559	63,418	62,984	62,588	60,999	60,035
Personal loans	32,511	32,264	29,713	30,573	28,019	27,220	26,802	26,213
Credit card loans	4,283	4,128	4,862	4,961	4,666	4,224	3,270	2,690
Business and government loans	76,862	74,732	69,723	70,023	72,143	69,492	70,974	68,694
Allowance for loan losses	(2,278)	(2,173)	(1,951)	(1,947)	(1,871)	(1,845)	(1,869)	(1,937)
Other assets	49,175	38,667	38,176	34,436	29,941	25,144	27,837	29,296
	$ 362,483	$ 334,902	$ 318,943	$ 306,811	$ 294,054	$ 280,715	$ 280,037	$ 271,894
Liabilities and shareholders' equity								
Deposits – Canada	$ 140,558	$ 138,095	$ 141,000	$ 135,093	$ 138,124	$ 135,830	$ 135,472	$ 131,025
Deposits – International	95,129	87,226	73,506	71,213	68,113	64,237	63,517	61,235
Other liabilities	100,450	83,109	81,117	78,133	67,992	61,973	63,216	62,037
Subordinated debentures	6,662	6,457	6,992	6,447	5,825	5,091	5,104	5,072
Non-controlling interest in subsidiaries	1,479	1,453	1,481	1,453	703	690	39	103
Total equity	18,205	18,562	14,847	14,472	13,297	12,894	12,689	12,422
	$ 362,483	$ 334,902	$ 318,943	$ 306,811	$ 294,054	$ 280,715	$ 280,037	$ 271,894
Selected average balances and off-balance sheet data								
Averages								
Assets	$ 346,300	$ 344,100	$ 326,900	$ 309,000	$ 294,400	$ 285,100	$ 280,900	$ 276,400
Loans	178,042	173,951	168,600	167,863	164,882	162,273	158,550	154,086
Deposits	232,928	224,268	215,988	210,238	204,362	197,471	190,649	191,966
Common equity	16,450	14,596	12,639	11,955	11,092	10,806	10,589	10,428
Total equity	18,497	16,725	14,648	13,952	13,115	12,823	12,590	12,438
Assets under administration	1,337,700	1,271,800	1,198,700	1,242,800	1,175,200	1,147,400	1,099,400	1,027,300
Assets under management	104,800	110,500	110,400	112,500	92,300	95,200	94,000	86,400
Provision for credit losses								
Allocated specific	$ 425	$ 236	$ 210	$ 178	$ 134	$ 172	$ 132	$ 133
Allocated general	108	–	–	97	8	–	35	30
Total allocated	533	236	210	275	142	172	167	163
Unallocated	(108)	–	–	(27)	32	–	5	10
Total	$ 425	$ 236	$ 210	$ 248	$ 174	$ 172	$ 172	$ 173
Nonaccrual loans as a % of loans (including acceptances)	1.36%	1.23%	1.18%	1.03%	1.00%	1.06%	1.03%	1.02%
Capital ratios (Canadian basis)								
Common equity/risk-adjusted assets	9.4%	9.5%	8.0%	7.6%	7.3%	7.2%	7.1%	7.1%
Tier 1	8.7	9.3	8.8	8.3	8.6	8.5	8.0	8.1
Total	11.8	12.3	12.3	11.5	12.0	11.5	11.1	11.4
Capital ratios (U.S. basis)								
Common equity/risk-adjusted assets	9.5%	9.5%	8.1%	7.7%	7.2%	7.1%	7.0%	7.0%
Tier 1	8.1	8.5	8.4	8.0	7.8	7.9	7.4	7.6
Total	11.2	11.6	11.9	11.1	11.3	10.9	10.5	10.9
Common share information								
Shares outstanding (in thousands)								
End of period	674,021	683,312	616,516	616,209	602,398	601,628	604,723	608,783
Average basic	681,758	658,296	616,365	608,824	602,108	602,494	608,285	612,708
Average diluted	687,334	663,996	621,907	614,686	606,710	605,833	611,114	618,111
Dividends per share	$ .36	$ .36	$ .33	$ .33	$ .30	$ .30	$ .27	$ .27
Book value per share	24.06	23.87	20.82	20.26	18.75	18.14	17.71	17.19
Common share price – High (4)	53.25	51.50	51.25	52.80	48.88	41.13	38.25	34.70
Low (4)	41.60	42.80	42.42	45.10	39.17	34.40	28.38	27.25
Close	46.80	50.96	42.95	48.20	48.30	39.65	34.95	29.53
Dividend yield	3.0%	3.1%	2.8%	2.7%	2.7%	3.2%	3.2%	3.5%
Dividend payout ratio	38	62	35	31	34	34	31	34

(1) Cash net income, cash diluted earnings per share and cash return on common equity are computed by adding back to net income the after-tax amount of amortization of goodwill and other intangibles. Further deducting the impact of special items results in core cash net income, core cash diluted earnings per share and core cash return on common equity.
(2) Earnings per share for the year may not equal the sum of the quarters.
(3) Net interest income as a percentage of average assets.
(4) Intraday high and low share prices.

/ Financial review Canadian GAAP

Caution regarding forward-looking statements

Royal Bank of Canada, from time to time, makes written and oral forward-looking statements, included in this Annual Report, in other filings with Canadian regulators or the U.S. Securities and Exchange Commission, in reports to shareholders and in other communications, which are made pursuant to the "safe harbor" provisions of the United States *Private Securities Litigation Reform Act of 1995*. These forward-looking statements include, among others, statements with respect to the bank's objectives for 2002, and the medium and long terms, and strategies to achieve those objectives, as well as statements with respect to the bank's beliefs, plans, expectations, anticipations, estimates and intentions. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "anticipate," "estimate," "expect," "intend," "plan," and words and expressions of similar import are intended to identify forward-looking statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that predictions, forecasts, projections and other forward-looking statements will not be achieved. The bank cautions readers not to place undue reliance on these statements as a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to, the strength of the Canadian economy in general and the strength of the local economies within Canada in which the bank conducts operations; the strength of the United States economy and the economies of other nations in which the bank conducts significant operations; the effects of changes in monetary and fiscal policy, including changes in interest rate policies of the Bank of Canada and the Board of Governors of the Federal Reserve System in the United States; changes in trade policy; the effects of competition in the markets in which the bank operates; inflation; capital market and currency market fluctuations; the timely development and introduction of new products and services by the bank in receptive markets; the impact of changes in the laws and regulations regulating financial services (including banking, insurance and securities); changes in tax laws; technological changes; the ability of the bank to complete strategic acquisitions and to integrate acquisitions; unexpected judicial or regulatory proceedings; unexpected changes in consumer spending and saving habits; and the bank's anticipation of and success in managing the risks implicated by the foregoing.

The bank cautions that the foregoing list of important factors is not exhaustive. When relying on forward-looking statements to make decisions with respect to the bank, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. The bank does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the bank.

This management's discussion and analysis was prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). Management evaluates the bank's performance on a reported, a core, a cash and a core cash basis.

Items presented on a core basis exclude special items that are viewed by management as items that do not arise as part of normal day-to-day business operations or that are unusual in nature and that could potentially distort the analysis of trends. The special items for 2001 are shown in Table 4 on page 20A. The special items total $230 million and include gains on dispositions, a U.S. retail banking restructuring charge, income tax related to these items, and a tax expense resulting from the enactment of a reduction in tax rates. There were no special items for 2000.

Items presented on a cash basis are calculated by adding back to reported net income the after-tax amount of amortization of goodwill and other intangibles. The amortization of goodwill reduced reported diluted earnings per share (EPS) by $.38 in 2001 ($.12 in 2000), while the amortization of intangibles reduced reported diluted earnings per share by $.05 ($.02 in 2000). On November 1, 2001, the bank adopted the new accounting standards for business combinations, whereby goodwill is no longer amortized although other intangibles continue to be amortized.

Items presented on a core cash basis exclude special items and are calculated by adding back to reported net income the after-tax amount of amortization of goodwill and other intangibles.

The bank's fiscal year-end is October 31. All dollar amounts in management's discussion and analysis are in Canadian dollars unless otherwise specified.

Overview

Net income

($ millions, except percentage amounts)	% change	2001	2000
Reported net income (1)	6%	$ 2,411	$ 2,274
Impact of special items (2)		(230)	–
Core net income	(4)%	$ 2,181	$ 2,274
Reported net income (1)	6%	$ 2,411	$ 2,274
Amortization of goodwill and other intangibles (after-tax)	236%	282	84
Cash net income	14%	2,693	2,358
Impact of special items (2)		(230)	–
Core cash net income	4%	$ 2,463	$ 2,358

(1) As reported on the consolidated statement of income.
(2) Special items are shown in Table 4 on page 20A.

Diluted earnings per share (EPS)

($, except percentage amounts)	% change	2001	2000
Reported EPS (1)	0%	$ 3.52	$ 3.51
Impact of special items (2)		(.36)	–
Core EPS	(10)%	$ 3.16	$ 3.51
Reported EPS (1)	0%	$ 3.52	$ 3.51
Amortization of goodwill and other intangibles (after-tax)	207%	.43	.14
Cash EPS	8%	3.95	3.65
Impact of special items (2)		(.36)	–
Core cash EPS	(1)%	$ 3.60	$ 3.65

(1) As reported on the consolidated statement of income.
(2) Special items are shown in Table 4 on page 20A.

As shown in the tables above, reported net income in 2001 was up 6% from 2000 (flat on a per share basis). Excluding the special items, core net income was down 4% (down 10% per share). The bank issued 83 million common shares in 2001 (72 million net of common share repurchases), most of which were in connection with the acquisition of Centura Banks, Inc., in June 2001, resulting in lower or negative growth rates for earnings per share as compared to net income.

The analysis and discussion that follows on pages 19A to 55A contains comparisons to 2000 that are generally based on the 2001 core numbers (i.e., excluding special items) and where indicated, on core cash earnings. The consolidated financial statements on pages 57A to 85A are reported in accordance with Canadian GAAP.

As shown in Table 1 below, international revenues were $4.1 billion or 28% of total revenues, up from $1.9 billion or 16% in 2000. The U.S. acquisitions resulted in U.S. revenues increasing to $2.8 billion or 19% of total revenues, from $.8 billion or 7% in 2000.

TABLE 1 **Earnings by geographic segment**

	2001			2000		
($ millions, taxable equivalent basis)	Canada	International (1)	Total	Canada	International (1)	Total
Net interest income	$ 5,343	$ 1,206	$ 6,549	$ 4,796	$ 511	$ 5,307
Other income	5,343	2,872	8,215	5,311	1,421	6,732
Gross revenues	10,686	4,078	14,764	10,107	1,932	12,039
Provision for credit losses	757	362	1,119	703	(12)	691
Non-interest expenses	6,469	3,286	9,755	6,423	1,158	7,581
Income taxes (2)	1,476	3	1,479	1,387	106	1,493
Net income	$ 1,984	$ 427	$ 2,411	$ 1,594	$ 680	$ 2,274
Core net income (3)	$ 1,697	$ 484	$ 2,181	$ 1,594	$ 680	$ 2,274
Cash net income (4)	$ 2,095	$ 598	$ 2,693	$ 1,664	$ 694	$ 2,358
Core cash net income (5)	$ 1,808	$ 655	$ 2,463	$ 1,664	$ 694	$ 2,358

(1) Includes United States gross revenues of $2,835 million (2000 – $832 million).
(2) Includes non-controlling interest and taxable equivalent adjustment.
(3) Excludes special items in 2001, which are described in Table 4 on page 20A. There were no special items in 2000.
(4) Cash net income is computed by adding back to net income the after-tax amount of amortization of goodwill and other intangibles.
(5) Core cash net income is cash net income excluding special items in 2001, which are described in Table 4 on page 20A. There were no special items in 2000.

Outlook

Given the expectations of continued economic weakness in the first half of calendar 2002, the bank is targeting growth in core cash diluted earnings per share of 5–10% and a core cash return on common equity of 17–19% in fiscal 2002.

Financial priorities

Revenue growth and diversification

In 2001, core (operating) revenues increased 19%, substantially higher than the bank's objective of growth over 10%, primarily reflecting acquisitions. Excluding acquisitions, operating revenues were up 3%. Detailed discussion follows on pages 32A to 35A.

Cost control

Core non-interest expenses increased 27%, reflecting acquisitions, costs of Stock Appreciation Rights and certain significant expenses. Excluding these, core non-interest expenses were unchanged from last year. A full description is provided on pages 36A to 38A.

Balance sheet and capital management

There was significant capital activity undertaken this year, partially reflecting acquisitions. At October 31, 2001, the Tier 1 capital ratio was 8.7%, up from 8.6% a year ago, while the Total capital ratio was 11.8%, down from 12%. Both ratios met the bank's medium-term (3–5 year) capital ratio goals of 8% for Tier 1 capital and 11–12% for Total capital. More details are provided on pages 39A to 42A.

Strong credit quality

Deterioration in the U.S. telecommunication sector contributed to higher provisions for credit losses and impaired loans this year. The specific provision for credit losses ratio was .53% in 2001 compared to .32% in 2000. During the year, net write-offs were .47% of average loans compared to .38% in 2000. Detailed discussion and tables are provided on pages 43A to 49A.

Economic Profit

The bank measures the Economic Profit of its businesses, in addition to using a variety of other traditional measures, such as return on common equity and growth in earnings. Economic Profit measures each business segment's cash operating earnings after providing for the cost of capital committed to the segment.

Cash operating earnings is net income available to common shareholders excluding the after-tax impact of special items and amortization of goodwill and other intangibles. The equity capital charge is derived by applying the cost of common equity, which is management's proxy for the after-tax return required by shareholders for the use of their capital, to the amount of average common equity. The estimated cost of common equity is calculated based on the Capital Asset Pricing Model (CAPM). As such, the bank's cost of common equity changes as the factors of this model change, namely the risk-free rate, the bank's beta and the market risk premium. Furthermore, the estimated cost of equity is reviewed annually. Based on the decline in longer-term bond yields since the last review, the cost of common equity was reset mid-year to 12.5%. The average cost of common equity in 2001 was 12.9%.

To create shareholder value, one must generate cash operating earnings in excess of the common equity capital charge. Positive Economic Profit adds to shareholder value while negative Economic Profit erodes shareholder value.

Economic Profit measures changes in value created for the shareholders over time, and is an effective planning tool to focus attention on shareholder value growth opportunities. The objectives are to:

- Increase cash operating earnings without tying up more capital
- Target investments in projects that yield positive economic returns
- Improve overall effectiveness of invested capital through re-allocation from less effective uses
- Improve the risk-return profiles of the lines of business

Economic Profit analysis strengthens risk management discipline, as business segments are attributed capital based on their credit, market, operational and other risks. This discipline has resulted in controlled growth and a focus on returns commensurate with risks. Furthermore, Economic Profit encourages redistribution of resources to stronger performing businesses from businesses that are weaker performers.

As shown in Table 2 below, the bank had Economic Profit of $539 million in 2001. The capital charge grew at a faster rate than cash operating earnings due, in part, to issuance of common shares largely as part of the share exchange for the acquisition of Centura Banks, Inc. The Economic Profit amounts for the business segments in 2001 and 2000 are shown in the tables on pages 22A, 24A, 26A, 28A and 30A.

TABLE 2 **Economic Profit** (1)

($ millions, except percentage amounts)	**2001**	2000	1999	1998	1997
Net income available to common shareholders	**$ 2,276**	$ 2,140	$ 1,600	$ 1,679	$ 1,548
Adjustment for special items (after-tax)	**(230)**	–	102	3	30
Adjustment for amortization of goodwill and other intangibles (after-tax)	**282**	84	63	62	59
Cash operating earnings	**2,328**	2,224	1,765	1,744	1,637
Capital charge	**1,789**	(1,460)	(1,386)	(1,229)	(1,160)
Economic Profit (1)	**$ 539**	$ 764	$ 379	$ 515	$ 477
Economic Profit growth	**(29)%**	102%	(26)%	8%	81%
Average common equity	**$ 13,843**	$ 10,814	$ 10,264	$ 9,107	$ 8,003
Cost of common equity	**12.9%**	13.5%	13.5%	13.5%	14.5%

(1) Economic Profit is cash operating earnings (i.e., net income available to common shareholders excluding the after-tax impact of special items and amortization of goodwill and other intangibles) less a charge for the cost of common equity.

Line of business results

Overview

Table 3 below shows the bank's reported results by business segment in 2001. These results include several special items, shown in Table 4 and described below. Table 5 on page 21A shows the bank's core results (results excluding special items shown in Table 4) by business segment in 2001.

TABLE 3 Reported results by business segment

($ millions, taxable equivalent basis, except per share and percentage amounts)	2001 Personal & Commercial Banking	Insurance	Wealth Management	Corporate & Investment Banking	Transaction Processing	Total (1)	2000 Total
Net interest income	$ 5,346	$ 206	$ 385	$ 430	$ 150	$ 6,549	$ 5,307
Other income	1,976	274	3,042	2,346	563	8,215	6,732
Gross revenues	7,322	480	3,427	2,776	713	14,764	12,039
Provision for credit losses	732	–	2	407	(2)	1,119	691
Non-interest expenses	4,331	375	2,688	1,804	476	9,755	7,581
Income taxes	943	(28)	224	208	95	1,340	1,445
Non-controlling interest and taxable equivalent adjustment	16	–	–	21	–	139	48
Net income	$ 1,300	$ 133	$ 513	$ 336	$ 144	$ 2,411	$ 2,274
Cash net income (2)	$ 1,380	$ 146	$ 628	$ 379	$ 152	$ 2,693	$ 2,358
As a % of total	51%	5%	23%	14%	6%	100%	100%
% growth over prior year	21%	11%	44%	(29)%	7%	14%	30%
Return on common equity	18.5%	15.0%	27.2%	9.3%	29.4%	16.4%	19.8%
Cash return on common equity (2)	19.7%	16.8%	33.6%	10.5%	31.1%	18.5%	20.6%
Economic Profit (3)	$ 448	$ 30	$ 101	$ (56)	$ 85	$ 539	$ 764
Diluted earnings per share						$ 3.52	$ 3.51
Cash diluted earnings per share (2)						$ 3.95	$ 3.65

(1) The difference between the total and the business segments presented represents other activities, which mainly comprise Corporate Treasury, Corporate Resources, Systems & Technology and Real Estate Operations.
(2) Cash net income, cash return on common equity and cash diluted earnings per share are computed by adding back to net income the after-tax amount of amortization of goodwill and other intangibles.
(3) Economic Profit is cash operating earnings (i.e., net income available to common shareholders excluding the after-tax impact of special items and amortization of goodwill and other intangibles) less a charge for the cost of common equity employed.

Table 4 below shows the special items in 2001. These increased diluted earnings per share by $.36 in 2001. There were three items that increased other income – a $89 million gain on the formation of the Moneris Solutions merchant card processing joint venture with the Bank of Montreal, a $43 million gain on sale of the Group Retirement Services group pension benefits administration business and a $313 million gain on sale of RT Capital Management's institutional money management business. Non-interest expenses were increased by a $91 million restructuring charge related to integration and cost-saving initiatives in the U.S. retail banking platform. Income taxes were increased by a tax expense of $75 million reflecting a writedown of deferred tax assets due to a reduction in tax rates.

The business segment discussions on pages 21A to 31A refer to core amounts (i.e., excluding the special items shown in Table 4) for 2001.

TABLE 4 Special items affecting business segment results in 2001 (1)

($ millions, taxable equivalent basis, except per share amounts)	Personal & Commercial Banking	Insurance	Wealth Management	Corporate & Investment Banking	Total
Other income					
Gain on formation of Moneris Solutions joint venture	$ 89	$ –	$ –	$ –	$ 89
Gain on sale of Group Retirement Services	7	–	36	–	43
Gain on sale of RT Capital Management	–	–	313	–	313
	96	–	349	–	445
Non-interest expenses					
U.S. retail banking restructuring charge	91	–	–	–	91
Total impact (pre-tax)	5	–	349	–	354
Income taxes					
On items listed above	(21)	–	70	–	49
Enactment of change in tax rates (2)	33	(2)	5	28	75
Total impact (after-tax)	$ (7)	$ 2	$ 274	$ (28)	$ 230
Impact on diluted earnings per share					$ .36

(1) There were no special items in Transaction Processing in 2001 and no special items at all in 2000.
(2) Included in the total $75 million is $11 million related to other activities, which mainly comprise Corporate Treasury, Corporate Resources, Systems & Technology and Real Estate Operations.

Core line of business results

Overview

Table 5 below shows core results by business segment for 2001.

Personal & Commercial Banking produced a core cash return on common equity (ROE) of 19.8% and generated 56% of the bank's core cash net income in 2001. Core cash net income increased 22% from 2000, as explained on page 22A. RBC Centura (acquired on June 5, 2001) recorded core net income of $11 million and core cash net income of $69 million in 2001. RBC Prism Mortgage (acquired in April 2000) had core net income of $43 million, up from a net loss of $3 million in 2000, and core cash net income of $53 million compared to no cash earnings in 2000.

Insurance produced a core cash ROE of 16.6% and generated 6% of the bank's core cash net income in 2001. Core cash net income increased 9% from 2000, as explained on page 24A. RBC Liberty Insurance (acquired on November 1, 2000) contributed core net loss of $5 million and core cash net income of $8 million in 2001.

Wealth Management produced a core cash ROE of 18.6% and generated 14% of the bank's core cash net income in 2001. Core cash net income declined by 19% as discussed on page 26A. RBC Dain Rauscher's Private Client Group and fixed income divisions (acquired on January 10, 2001) had a core net loss of $72 million in 2001, reflecting weak client trading volumes in the full-service brokerage industry this year, retention compensation costs of $88 million and goodwill amortization expenses of $40 million. Core cash net loss was $33 million.

Corporate & Investment Banking produced a core cash ROE of 11.4% and generated 17% of the bank's core cash net income in 2001. Core cash net income declined 23%, as explained on page 28A. Dain Rauscher Wessels (acquired on January 10, 2001) had a core net loss of $88 million due to a weak capital markets environment in 2001, retention compensation costs of $88 million and goodwill amortization expenses of $27 million. Core cash net loss was $61 million.

Transaction Processing produced a cash ROE of 31.1% and generated 6% of the bank's core cash net income in 2001. Cash net income increased 7%, as explained on page 30A.

The bank allocates capital to its business segments based on their credit, market, operational and other risks. Capital in each business segment has increased over last year due to additional business activity in each segment and several acquisitions made in 2001. The increases in capital attributed to goodwill recorded on acquisitions during the year negatively affected ROE and cash ROE for all of the operating segments. Capital increased by $1.6 billion in Personal & Commercial Banking, $.5 billion in Insurance, $1.0 billion in Wealth Management, $1.0 billion in Corporate & Investment Banking and $.1 billion in Transaction Processing during 2001.

TABLE 5 Core results by business segment (1)

($ millions, taxable equivalent basis, except per share and percentage amounts)	2001 Personal & Commercial Banking	2001 Insurance	2001 Wealth Management	2001 Corporate & Investment Banking	2001 Transaction Processing	2001 Total (2)	2000 Total
Net interest income	$ 5,346	$ 206	$ 385	$ 430	$ 150	$ 6,549	$ 5,307
Other income	1,880	274	2,693	2,346	563	7,770	6,732
Gross revenues	7,226	480	3,078	2,776	713	14,319	12,039
Provision for credit losses	732	–	2	407	(2)	1,119	691
Non-interest expenses	4,240	375	2,688	1,804	476	9,664	7,581
Income taxes	931	(26)	149	180	95	1,216	1,445
Non-controlling interest and taxable equivalent adjustment	16	–	–	21	–	139	48
Net income	$ 1,307	$ 131	$ 239	$ 364	$ 144	$ 2,181	$ 2,274
Cash net income (3)	$ 1,387	$ 144	$ 354	$ 407	$ 152	$ 2,463	$ 2,358
As a % of total	56%	6%	14%	17%	6%	100%	100%
% growth over prior year	22%	9%	(19)%	(23)%	7%	4%	23%
Return on common equity	18.6%	14.8%	12.2%	10.1%	29.4%	14.8%	19.8%
Cash return on common equity (3)	19.8%	16.6%	18.6%	11.4%	31.1%	16.8%	20.6%
Economic Profit (4)	$ 448	$ 30	$ 101	$ (56)	$ 85	$ 539	$ 764
Diluted earnings per share						$ 3.16	$ 3.51
Cash diluted earnings per share (3)						$ 3.60	$ 3.65

(1) Core results in 2001 exclude special items detailed in Table 4 on page 20A. There were no special items in 2000.

(2) The difference between the total and business segments presented represents other activities, which mainly comprise Corporate Treasury, Corporate Resources, Systems & Technology and Real Estate Operations.

(3) Cash net income, cash return on common equity and cash diluted earnings per share are computed by adding back to net income the after-tax amount of amortization of goodwill and other intangibles.

(4) Economic Profit is defined as cash operating earnings (i.e., net income available to common shareholders excluding the after-tax impact of special items and amortization of goodwill and other intangibles) less a charge for the cost of common equity employed.

Personal & Commercial Banking

Business profile

Personal & Commercial Banking serves over 11 million individuals, small and medium-sized businesses, and commercial clients in Canada, the U.S., the Caribbean and The Bahamas. Our distribution capabilities include a network of branches, business banking centres and other sales units, mobile sales representatives, automated banking machines, and telephone and Internet banking channels. We deliver a wide range of financial services which include deposit accounts, investments and mutual funds, credit and debit cards, business and personal loans, and residential and commercial mortgages, all supported by financial advice.

Strategy

Personal & Commercial Banking's objective is to grow profitable relationships with each business and personal client by:

- Creating a tailored client experience
- Reducing costs
- Effectively managing risk and capital

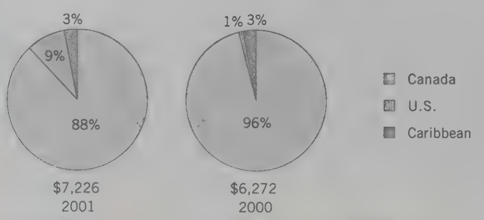
We plan to achieve our objectives through the following strategic initiatives:

- Drive revenue growth by increasing client contact and service differentiation, maximizing client retention and leveraging client segmentation with a life event focus
- Accelerate U.S. revenue and earnings growth through continued development of U.S. capabilities and expansion in targeted personal and commercial markets
- Sustain our cost management focus, offsetting volume increases and new initiatives with cost reductions
- Strengthen risk mitigation focus, resulting in earnings growth and reduced income volatility through "best in class" operational and credit risk processes

Substantial growth in U.S. revenues

With the addition of RBC Centura and RBC Prism Mortgage, Personal & Commercial Banking's U.S. revenues have increased from 1% of total revenues in 2000 to 9% in 2001.

CORE REVENUES BY GEOGRAPHY ($ millions, taxable equivalent basis)



Core financial performance (1)

Personal & Commercial Banking's core cash net income was up 22%, while core net income was up 16% from 2000. The acquisitions of RBC Centura and RBC Prism Mortgage partially contributed to the growth, without which core cash net income and core net income would both have been up 11%.

Core revenues grew 15% and core non-interest expenses grew 16% from last year. Without RBC Centura, core revenues would have been up 9%, outpacing a 7% growth in core expenses. The core efficiency ratio increased 30 basis points to 58.7% and the operating efficiency ratio increased 50 basis points to 58.6%.

Economic Profit was $448 million, core cash ROE was 19.8% and core ROE was 18.6%. Economic Profit, core cash ROE and core ROE reflected $1.6 billion of additional average common equity attributed to the segment during 2001, of which $900 million related to goodwill arising from the acquisition of RBC Centura.

Core results (1)

($ millions, taxable equivalent basis, except percentage amounts)	% change	2001	2000
Net interest income	14%	$ 5,346	$ 4,705
Other income	20	1,880	1,567
Gross revenues	15	7,226	6,272
Provision for credit losses			
Specific provision	23	662	539
General provision	(36)	70	110
Total	13	732	649
Non-interest expenses	16	4,240	3,660
Net income before income taxes	15	2,254	1,963
Income taxes	13	931	823
Non-controlling interest and taxable equivalent adjustment	45	16	11
Net income	16%	$ 1,307	$ 1,129
Cash net income	22%	$ 1,387	$ 1,138
Cash net income as a % of total bank cash net income	800 bp	56%	48%
ROE	(210)bp	18.6%	20.7%
Cash ROE	(110)bp	19.8%	20.9%
Economic Profit	20%	$ 448	$ 373
Efficiency ratio	30 bp	58.7%	58.4%
Operating efficiency ratio (2)	50 bp	58.6%	58.1%
Average assets	10%	$ 143,100	$ 129,700
Average loans and acceptances	7	134,900	125,600
Average deposits	13	111,400	98,900
Average common equity	31	6,700	5,100
Number of employees (full-time equivalent)	10	34,849	31,610

(1) Excluding special items in 2001 detailed in Table 4 on page 20A.
(2) Operating efficiency ratio is defined on page 92.

Outlook for 2002

The slowing economy is likely to affect personal and business loan and deposit volumes in 2002. However, with the inclusion of a full year of results for RBC Centura, and our initiatives to drive revenue growth as outlined in our strategy, we anticipate achieving solid revenue growth in 2002. At the same time, we are committed to ongoing cost-saving initiatives such as eliminating process duplications and inefficiencies, strengthening electronic and other lower-cost delivery capabilities and optimizing the physical branch network to further reduce the efficiency ratio. Overall, our goal is for growth in cash net income in 2002. We have also undertaken several risk mitigation initiatives, including strengthening credit and behavioural scoring, tightening collection processes and optimizing credit policies and processes which we expect will limit asset quality deterioration next year.

Strategy by division

Canada

Operating in Canada under the RBC Royal Bank brand, the Personal & Commercial Banking business serves individuals, small and medium-sized businesses, and commercial clients in all provinces and territories. We offer a wide range of financial services and advice, as detailed in our business profile on page 22A, and products and expertise in specialized areas such as foreign exchange, venture capital financing and financial planning.

We also provide individual and business clients with a full choice of Visa credit card products, debit cards and other smart card applications. Through Moneris Solutions, a 50/50 joint venture with Bank of Montreal, we provide merchants with credit and debit card acceptance services, including rental of point-of-sale terminals and Internet-secure electronic transaction solutions.

Our goal is to grow profitable relationships with each one of our business and personal clients by using our expertise in client relationship management, data warehousing and predictive modelling. These enable us to tailor client experiences with customized marketing offers and financial advice, and drive revenue growth by selling, cross-selling and up-selling.

We will continue to eliminate duplication and other cost inefficiencies, and look for opportunities to strengthen electronic and other lower-cost delivery capabilities. We are also continuing our focus on the management of credit and operational risk.

Core financial performance by division

The domestic business showed core revenue growth of 5% compared to last year. Higher deposit volumes and wider spreads on loans and credit cards were partially offset by deposit spread compression and lower lending volumes. Average residential mortgage balances increased 3% in 2001, as interest rate reductions during the year encouraged home purchases.

Core results (1)

($ millions, taxable equivalent basis)	% change	2001	2000
Gross revenues	5%	$ 6,315	$ 5,991
Average residential mortgages	3	64,800	62,900
Average personal loans	4	24,500	23,600
Average personal deposits	1	72,900	72,500
Average business loans	(3)	35,600	36,800
Average business deposits	26	28,100	22,300
Average card balances	13	6,000	5,300
Card spending volumes	4	26,300	25,300
Number of:			
Employees (full-time equivalent)	–	29,558	29,430
Automated banking machines	(5)	4,236	4,465
Branches	(1)	1,125	1,141
Online clients	48	1,876,358	1,264,400

(1) Excluding special items in 2001 detailed in Table 4 on page 20A.

United States

Acquired in June 2001, RBC Centura serves as the focal point of our personal and commercial banking businesses in the U.S. Headquartered in Rocky Mount, North Carolina, RBC Centura serves individual and business clients in the southeastern U.S. Other U.S.-based personal and commercial banking businesses with links to RBC Centura include RBC Prism Mortgage, a Chicago-based national retail mortgage originator, and RBC Builder Finance, a Houston-based financing company for home builders and developers.

We are focused on expanding our business in the U.S. through both organic growth and selective niche acquisitions.

Our medium- to long-term priorities include:

- Accelerated introduction of sales and marketing initiatives
- Segmented approach to personal and commercial market growth
- Expansion of niche national lines of business such as builder finance and residential mortgages
- Realizing synergies from functional integration and cross-selling opportunities across the bank's entire platform
- Selective acquisitions in targeted product and geographic markets

The U.S. business reflected a full year of RBC Prism Mortgage's results (compared to just over 6 months in 2000) and 5 months of results for RBC Centura. Without RBC Centura, revenue growth for RBC Prism Mortgage would have been 354% in 2001, reflecting not only the inclusion of a full year of results, but also significant growth in mortgage originations. RBC Prism Mortgage accounted for virtually all of the mortgage origination volume growth in 2001. Growth in average balances largely reflects the addition of RBC Centura.

Core results

($ millions, taxable equivalent basis)	% change	2001	2000
Gross revenues	976%	$ 678	$ 63
Average residential mortgages	433	1,600	300
Average personal loans	n.m.	1,300	–
Average personal deposits	n.m.	3,900	200
Average business loans	n.m.	3,900	200
Average business deposits	460	2,800	500
Average card balances	n.m.	100	–
Card spending volumes	100	200	100
Mortgage originations ($ billions)	359	22.5	4.9
Number of:			
Employees (full-time equivalent)	296	4,126	1,041
Automated banking machines	n.m.	258	2
Branches (1)	n.m.	242	2
Online clients	181	112,481	40,000

(1) Excludes RBC Prism Mortgage sales offices of 264 in 2001 and 156 in 2000.
n.m. not meaningful

Caribbean and The Bahamas

Operating under the brand name RBC Royal Bank of Canada, we provide a broad range of personal and commercial banking products and services to individual and business clients in The Bahamas, Barbados, the Cayman Islands and Eastern Caribbean Islands through a network of branches and automated banking machines.

These operations recorded 7% growth in revenues compared to 2000, attributable mainly to increased spreads.

Core results

($ millions, taxable equivalent basis)	% change	2001	2000
Gross revenue	7%	$ 233	$ 218
Number of:			
Employees (full-time equivalent)	2	1,165	1,139
Automated banking machines	8	54	50
Branches	–	39	39

Insurance

Business profile

Operating as RBC Insurance, we provide a wide range of creditor, life, health, travel, home and auto insurance products and services to more than 5 million North American clients as well as reinsurance to business clients around the world. These products and services are offered through a wide variety of distribution channels, including the telephone, independent brokers, travel agents, a proprietary sales force and the Internet.

Strategy

We are focused on becoming a leading Canadian-based insurer, with select U.S. and international operations, offering a wide range of products and services efficiently through multiple distribution channels.

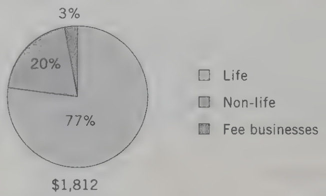
To accomplish this we will seek to:

- Continue to grow market share in Canada by expanding distribution channels, adding new products, enhancing products and leveraging products across existing distribution channels
- Develop market opportunities in niche reinsurance businesses, and expand infrastructure within offshore entities and Canadian operations to serve the high net worth market
- Continue to expand in the U.S.
- Maximize efficiency by integrating systems, services and structure in North America across business lines

Well-diversified business

Our mix of life, non-life and fee-based products and services gives us a strong insurance franchise that is also well-diversified geographically.

PREMIUMS & DEPOSITS BY DIVISION ($ millions)



Core financial performance (1)

Core cash net income increased 9% and core net income fell 1% from a year ago. Had it not been for the impact of the September 11 terrorist attacks in the U.S. on our reinsurance and travel operations, cash net income and net income would have been approximately $30 million higher in 2001. The acquisition of RBC Liberty Insurance in November 2000 contributed significantly to the strong growth in 2001. Without this addition, cash net income and net income would have both been up 3%, reflecting solid performances from the Canadian life, creditor and travel insurance businesses.

Premiums and deposits were up 50% from 2000, and up 15% excluding RBC Liberty Insurance's premiums and deposits of $421 million. Revenues grew 68%, or 5%, excluding the addition of RBC Liberty Insurance.

Economic Profit was $30 million, cash ROE was 16.6% and ROE was 14.8%. Economic Profit, cash ROE and ROE reflected the addition of $500 million of average common equity attributed to the segment in 2001, of which $70 million related to goodwill on the acquisition of RBC Liberty Insurance.

Core results (1)

($ millions, taxable equivalent basis, except percentage amounts)	% change	2001	2000
Premiums & deposits	50%	$ **1,812**	$ 1,208
Other income			
Earned premium	77	**1,548**	877
Fee revenue/Other	983	**130**	12
Less: Policyholder benefits	97	**1,054**	534
Less: Policy acquisition costs	129	**350**	153
	36	**274**	202
Net interest income	145	**206**	84
Gross revenues	68	**480**	286
Non-interest expenses	117	**375**	173
Net income before income taxes	(7)	**105**	113
Income taxes	(37)	**(26)**	(19)
Net income	(1)%	$ **131**	$ 132
Cash net income	9%	$ **144**	$ 132
Cash net income as a % of total bank cash net income	– bp	**6%**	6%
ROE	(3,420)bp	**14.8%**	49.0%
Cash ROE	(3,310)bp	**16.6%**	49.7%
Economic Profit	(69)%	$ **30**	$ 96
Average assets	152	**5,300**	2,100
Average common equity	167	**800**	300
Number of employees (full-time equivalent)	96	**2,583**	1,318

(1) Excluding special items in 2001 detailed in Table 4 on page 20A.

Outlook for 2002

We expect that Insurance will continue to experience good growth in 2002 as the insurance industry is less vulnerable to economic cycles compared to other industries, and our business is well diversified by product line and distribution channel. While the events of September 11 could result in further weakness in the reinsurance business, potentially higher premiums could partially offset that.

Strategy by division

Life

Our life business provides a wide range of individual and group life, health and creditor insurance products to both individual and business clients in Canada and the United States, as well as life retrocession to businesses around the world.

In Canada, life and health insurance products are distributed through a network of more than 5,000 independent brokers, almost 400 proprietary insurance agents and a direct sales unit. In the United States, Greenville, South Carolina–based Liberty Life Insurance Company provides life and health insurance products through a proprietary sales force of 650 agents, and simplified products through direct marketing channels.

Our goal is to continue to grow our life businesses by expanding our client base and range of products and services offered as well as by enhancing our distribution networks, developing additional solutions for complete insurance protection and reviewing opportunities for entry into new markets.

Non-life

Our non-life business includes home, auto, travel and property & casualty reinsurance for individual and business clients in Canada and select international markets.

We provide Canadians with a wide range of auto and home insurance products, offering them to individual clients and employee and affinity groups through direct sales channels. Travel products, which are sold through travel agents as well as bank channels in Canada, include trip cancellation insurance, out-of-country medical and baggage insurance.

We participate in the property & casualty reinsurance business by accepting a share of the risk on property and catastrophe policies issued by other insurance companies. The majority of our current business is generated from insurance companies in the United States and Europe.

Our goal is to grow our non-life business by continuing to build our domestic home and auto business and selectively expanding our property & casualty reinsurance portfolio.

Fee businesses

We are involved in a number of other key insurance and related activities that generate fee income, including travel assistance services, structured reinsurance and a proprietary sales distribution network.

Our travel and emergency assistance services are provided through Assured Assistance Inc., which co-ordinates the delivery of emergency health, evacuation and transportation services when clients have a travel emergency.

In the U.S., our fee businesses include outsourcing services and administration and software systems provided through Liberty Insurance Services Corporation (LIS). The Business Process Outsourcing division of LIS provides services such as underwriting, billing and collection, and claims processing for nearly 4 million policies under administration. The Software Solutions division develops Web-enabled software for life, health, annuity and reinsurance administration. Together, these divisions have more than 200 client sites and serve domestic, international and multinational insurers worldwide.

Our goal is to continue to leverage our existing infrastructure and technology to enhance existing programs and grow these businesses.

Core financial performance by division

Life

Growth in premiums & deposits of 53%, and revenues of 58%, was due largely to the acquisition of RBC Liberty Insurance. Without RBC Liberty Insurance, premiums & deposits would have been up 7% and revenues 14%, reflecting continued strong growth in the Canadian life, creditor life and disability businesses.

Core results

($ millions)	% change	2001	2000
Premiums & deposits	53%	**$ 1,393**	$ 912
Gross revenue	58	**388**	246
Average assets	153	**4,300**	1,700
Clients			
Number of life and health policies in force in Canada (thousands)	7	**2,645**	2,475
Number of life policies in force in the U.S. (thousands)	n.m.	**2,600**	–
Assets under management in the U.S.	n.m.	**375**	–
Number of U.S. sales agents	n.m.	**718**	–

n.m. not meaningful

Non-life

Premiums & deposits grew 27%, while revenues fell 34%, reflecting the impact of the events of September 11 on the property & casualty reinsurance and travel businesses.

Core results

($ millions)	% change	2001	2000
Premiums & deposits	27%	**$ 363**	$ 286
Gross revenue	(34)	**25**	38
Average assets	133	**700**	300
Clients			
Home and auto – Personal lines policies in force (thousands)	70	**68**	40
Travel – Number of coverages (thousands)	2	**2,510**	2,471

Fee businesses

Premiums & deposits were up 409% due to growth in the structured reinsurance business. Revenues were up significantly but, excluding the addition of RBC Liberty Insurance, revenues would have been down $10 million from 2000, reflecting the impact of the events of September 11 on the structured reinsurance business.

Core results

($ millions)	% change	2001	2000
Premiums & deposits	409%	**$ 56**	$ 11
Gross revenue	n.m.	**67**	3
Average assets	200	**300**	100
Clients			
Career sales – Number of agents	14	**455**	400
Assured Assistance – Number of calls (thousands)	41	**699**	495
Number of policies under administration in the U.S. (thousands)	n.m.	**4,342**	–

n.m. not meaningful

Wealth Management

Business profile

Wealth Management provides direct and full-service brokerage, financial planning, investment counselling, trust, private banking, mutual funds and investment management services to private clients in Canada, the U.S. and internationally. Products and services are delivered through the bank's branch network across Canada, RBC Investments offices, private banking offices and other locations worldwide. Services are also delivered via the Internet and telephone. With the recent acquisitions, U.S. clients are served primarily in a full-service brokerage capacity in 41 states. We are client centred, focusing on relationship management to deliver comprehensive financial solutions globally, be they proprietary or third-party.

In October 2001, we restructured our distribution channels to enhance the client experience by offering seamless, comprehensive solutions while augmenting shareholder return. In addition to the financial planning business operated jointly with Personal & Commercial Banking, Wealth Management will consist of Canadian & International Brokerage (including self-directed and full-service brokerage), Global Private Banking (combining Global Private Banking, RBC Private Counsel, Canadian private banking and the Canadian personal trust business), Global Asset Management and U.S. Wealth Management (including RBC Dain Rauscher and the recently acquired Tucker Anthony Sutro).

Strategy

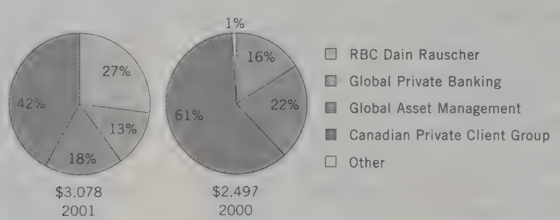
We will continue to be the trusted partner of private clients by providing personalized, comprehensive financial solutions. We will also:

- Continue to identify and segment our client base to tailor distribution channels and develop appropriate investment solutions
- Develop market leadership in the financial planning industry
- Protect and grow the domestic franchise while expanding U.S. and U.K. distribution
- Further develop superior distribution and investment capabilities by leveraging business practices across the segment and through strategic use of technology, thereby enhancing the client experience
- Attract and retain the best people and provide growth opportunities by creating a challenging environment and competitive offerings
- Proactively manage risk exposure by fostering a heightened awareness and commitment among all employees

Global focus

Wealth Management revenues are being further diversified with our increasing U.S. presence through RBC Dain Rauscher.

CORE REVENUES BY DIVISION ($ millions, taxable equivalent basis)



Core financial performance (1)

Wealth Management's core cash net income and core net income declined by 19% and 43%, respectively, from 2000, due primarily to weaker capital markets and expenses associated with the acquisition of RBC Dain Rauscher. Excluding RBC Dain Rauscher, which was acquired in January 2001, core cash net income would have been down 11% and core net income down 25%.

Core revenues were up 23% and expenses were up 46% from a year ago. RBC Dain Rauscher contributed significantly to the growth in revenues and expenses. Without the addition of RBC Dain Rauscher, core revenues would have declined by 10% and expenses would have declined by 4%.

Economic Profit was $101 million, core cash ROE was 18.6% and core ROE was 12.2%. Declines in Economic Profit, core cash ROE and core ROE resulted from the above-mentioned factors, and reflected the addition of $1.0 billion of average common equity attributed to the segment in 2001, of which $540 million related to goodwill on the acquisition of RBC Dain Rauscher.

Core results (1)

($ millions, taxable equivalent basis, except percentage amounts)	% change	2001 (2)	2000
Net interest income	7%	$ 385	$ 359
Other income	26	2,693	2,138
Gross revenues	23	3,078	2,497
Provision for credit losses			
Specific provision	300	2	(1)
Total	300	2	(1)
Non-interest expenses	46	2,688	1,838
Net income before income taxes	(41)	388	660
Income taxes	(39)	149	244
Net income	(43)%	$ 239	$ 416
Cash net income	(19)%	$ 354	$ 437
Cash net income as a % of total bank cash net income	(500)bp	14%	19%
ROE	(3,600)bp	12.2%	48.2%
Cash ROE	(3,230)bp	18.6%	50.9%
Economic Profit	(67)%	$ 101	$ 310
Average common equity	125	1,800	800
Number of employees (full-time equivalent)	39	10,512	7,553

(1) Excluding special items in 2001 detailed in Table 4 on page 20A.
(2) 2001 results include less than 10 months of results for Dain Rauscher, which was purchased on January 10, 2001, but exclude Tucker Anthony Sutro, acquired on October 31, 2001.

Outlook for 2002

Revenue growth in 2002 will be fuelled by the inclusion of a full year of results for RBC Dain Rauscher and the newly acquired Tucker Anthony Sutro. The sale of RT Capital Management is not expected to have a significant impact on revenue growth. However, with the expectation that economic growth will not resume until the second half of 2002, generating cash net income growth for Wealth Management will be a challenge. To reduce the volatility of earnings resulting from the unpredictable nature of the capital markets, we will continue to focus on generating fees based on asset values instead of transaction volumes. As well, we are implementing a number of cost-containment programs in 2002 which should generate savings in addition to synergies to be derived from the integration of Tucker Anthony Sutro with RBC Dain Rauscher.

Strategy by division

Canadian Private Client Group
This group includes Action Direct (self-directed brokerage), private client division (full-service retail brokerage), financial planning, RBC Private Counsel and personal trust, and is the domestic distribution network for wealth accumulators and preservers, investors requiring advisor-based comprehensive financial solutions, and self-managed investors. Services are provided by over 180 investment representatives, over 1,460 investment advisors, 370 accredited financial planners, 60 investment counsellors, 80 trust officers, as well as via telephone and the Internet. Continued growth in Canada is essential to allow us to leverage our markets in the U.S., Latin America and Europe. Our goal is to continue building and enhancing client relationships while reconfiguring the self-directed brokerage business for the current market environment. With the creation of our new financial planning platform operated jointly with Personal & Commercial Banking, we will be able to effectively serve all Canadians with their investment needs, be they emerging affluent, affluent, high net worth or ultra-high net worth.

RBC Dain Rauscher
Acquired in January 2001, Minneapolis-based RBC Dain Rauscher helps U.S. private clients identify and achieve their financial goals. Our goal is to be a trusted partner of affluent private clients in chosen markets by providing them with personalized comprehensive financial solutions. On October 31, 2001, the acquisition of Boston-based Tucker Anthony Sutro was completed and we plan to merge it into RBC Dain Rauscher to create the ninth-largest full-service securities firm in the U.S., with nearly 2,100 investment executives serving individual clients from coast to coast. Expenses associated with the acquisition and consolidation of RBC Dain Rauscher amounted to $125 million in 2001 and are expected to be approximately $60 million in 2002. Our objectives for 2002 will be to integrate Tucker Anthony Sutro, increase market share in selected geographic markets and expand organically in existing markets where the bank already has a presence.

Global Private Banking
This globally focused unit provides private banking, trust and investment counselling solutions to high net worth clients from more than 100 countries. Our goal in 2002 is to grow revenues by leveraging the bank's North American distribution capabilities and by exploring potential European acquisitions. The recently announced integration of our Canadian trust, RBC Private Counsel and domestic private banking businesses with Global Private Banking (the international units) will facilitate the offering of both proprietary and third-party products and solutions. It will also facilitate the creation of fully integrated worldwide offerings for clients, and lead to cost synergies to be realized in 2002.

Global Asset Management
This unit, which includes Investment Management and Royal Mutual Funds, manages over $34 billion of proprietary mutual funds and provides investment management products and services through RBC Royal Bank, RBC Investments' distribution businesses and external distributors, to private and institutional clients in Canada and worldwide. Our family of mutual funds and other pooled products encompasses a broad range of investment solutions including money market, fixed income, balanced and equity funds, as well as alternative investments. Our mix of Canadian, U.S. and international equity funds offers investment opportunities in all major industry sectors on a global basis. RT Capital Management's institutional pension fund management business, with assets under management (AUM) of $30 billion (at July 31, 2001), was sold on August 15, 2001, allowing us to focus on our asset management segments with greater growth potential. In 2002, our goal is to broaden the distribution channels for investment management services and mutual fund products.

Core financial performance by division

Core revenues were up 23% from a year ago as a result of the acquisition of RBC Dain Rauscher. Without RBC Dain Rauscher, core revenues would have decreased 10% as a result of lower transaction-based and fee-based revenues reflecting weak capital markets in 2001.

Core revenues

($ millions)	% change	2001	2000
Canadian Private Client Group (1)	(15)%	$ 1,298	$ 1,527
RBC Dain Rauscher (2)	n.m.	829	–
Global Private Banking (3)	–	392	391
Global Asset Management (1), (3)	(2)	550	563
Other (4)	(44)	9	16
	23%	$ 3,078	$ 2,497

(1) 2000 revenues were restated for the reclassification of Personal Trust revenue from Global Asset Management to Canadian Private Client Group.
(2) Dain Rauscher was purchased on January 10, 2001, and Tucker Anthony Sutro was purchased on October 31, 2001. Revenues from Tucker Anthony Sutro are not reflected above.
(3) 2000 results were restated for 2001 business unit reclassifications. Revenues from RT Capital Management were included in results until August 15, 2001.
(4) 2000 revenues include Group Retirement Services (sold January 2001), Bull & Bear Securities Inc. (sold June 2001) and other miscellaneous income.
n.m. not meaningful

Assets under administration (AUA) increased 59% from 2000. The addition of AUA from RBC Dain Rauscher and Tucker Anthony Sutro more than offset the decrease in AUA in the Canadian Private Client Group and Global Private Banking due to declines in market values. Institutional AUA increased 12% reflecting new business in Jersey and an increase in the value of the British pound against the Canadian dollar.

Assets under administration (AUA)

($ millions)	% change	2001	2000 (2)
Personal			
Canadian Private Client Group	(9)%	$ 137,300	$ 151,200
RBC Dain Rauscher (1)	n.m.	157,000	–
Global Private Banking	(5)	52,300	54,900
Total personal	68	346,600	206,100
Institutional	12	47,100	42,200
	59%	$ 393,700	$ 248,300

(1) Dain Rauscher was purchased on January 10, 2001. Includes Tucker Anthony Sutro (AUA of $70.8 billion), purchased on October 31, 2001.
(2) 2000 results were restated to conform with the current presentation of results.
n.m. not meaningful

AUM grew 11% from last year, due to a substantial increase in personal AUM resulting from the acquisitions of RBC Dain Rauscher and Tucker Anthony Sutro. The decline in institutional AUM reflects the sale of RT Capital Management in August 2001, which had $30 billion in AUM. Mutual fund asset levels remained stable despite the decline in asset values due to weak market conditions, as investor interest in money market funds increased.

Assets under management (AUM)

($ millions)	% change	2001	2000
Personal (1)	139%	$ 51,400	$ 21,500
Institutional (1), (2)	(54)	16,950	36,700
Mutual funds	1	34,550	34,100
	11%	$ 102,900	$ 92,300

(1) Dain Rauscher was purchased on January 10, 2001. Includes Tucker Anthony Sutro, purchased on October 31, 2001. Personal AUM for RBC Dain Rauscher and Tucker Anthony Sutro was $33.1 billion. Institutional AUM for RBC Dain Rauscher was $10.6 billion.
(2) RT Capital Management was sold on August 15, 2001.

Corporate & Investment Banking

Business profile

Operating under the RBC Capital Markets brand, Corporate & Investment Banking serves corporate, government and institutional clients in North America and in selected product and industry niches globally. We are headquartered in Toronto, with key centres of expertise in Minneapolis, New York and London, and offices in 29 other cities. This business offers North American expertise in the energy, communications, health care and technology sectors, and global expertise in the resource sectors. It is also globally competitive in Canadian securities, equity and credit derivatives, mergers & acquisitions, structured finance, foreign exchange and Eurobonds.

In 2001, Corporate & Investment Banking consisted of three operating divisions – Global Banking, Global Equity and Global Markets – along with Dain Rauscher Wessels (DRW), its U.S. equity capital markets division. We announced a restructuring of our businesses effective November 1, 2001, which will position us for future continental growth. (See highlights, page 12.)

Strategy

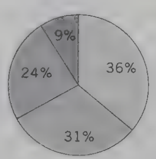
Key strategies for Corporate & Investment Banking include the following:

- Develop a strong North American franchise by expanding our market position in targeted U.S. industry sectors that include energy, technology, biotechnology, health care, consumer products and financial institutions, and maintain a leading full-service position in all of our Canadian markets
- Increase our market penetration in asset securitization through a global structure that includes term products, and broaden our share of the U.S. market in high-yield debt and alternative assets
- Build global niches in trading, distribution and structuring

Strength through revenue diversification

Our diversification by business line, as well as the acquisition of Dain Rauscher Wessels, enabled us to achieve strong revenue growth compared to last year, despite weak capital markets.

CORE REVENUES BY DIVISION ($ millions, taxable equivalent basis)



Core financial performance (1)

Core cash net income for Corporate & Investment Banking was down 23% and core net income was down 28% from last year, reflecting a $316 million increase in the provision for credit losses largely in the U.S. telecommunication sector, weak capital market conditions and the acquisition of DRW. Without DRW, core cash net income and core net income would have declined 12% and 11%, respectively.

Revenues grew 19% while expenses grew 25% from 2000. Without the addition of DRW, revenues would have increased 9% and expenses would have declined by 1%. Net interest income rebounded from 2000 levels due primarily to a strong performance from the fixed income business and lower funding costs from the equity derivatives business. The lower funding costs for equity derivatives resulted from lower trading inventories and declining interest rates in 2001.

Economic Profit was $(56) million in 2001, while core cash ROE was 11.4% and core ROE was 10.1%. Declines in Economic Profit, core cash ROE and core ROE resulted from the above-mentioned factors, and reflected the addition of $1.0 billion of average common equity attributed to the segment in 2001, of which $360 million related to goodwill on the acquisition of DRW.

Core results (1)

($ millions, taxable equivalent basis, except percentage amounts)	% change	2001	2000
Net interest income	900%	$ 430	$ 43
Other income	3	2,346	2,287
Gross revenues	19	2,776	2,330
Provision for credit losses			
Specific provision	402	407	81
General provision	(100)	–	10
Total	347	407	91
Non-interest expenses	25	1,804	1,445
Net income before income taxes	(29)	565	794
Income taxes	(32)	180	264
Non-controlling interest and taxable equivalent adjustment	(5)	21	22
Net income	(28)%	$ 364	$ 508
Cash net income	(23)%	$ 407	$ 532
Cash net income as a % of total bank cash net income	(600)bp	17%	23%
ROE	(1,100)bp	10.1%	21.1%
Cash ROE	(1,080)bp	11.4%	22.2%
Economic Profit	(128)%	$ (56)	$ 197
Average assets	19	156,400	131,900
Average loans and acceptances	12	59,600	53,000
Average deposits	14	70,500	61,900
Average common equity	43	3,300	2,300
Number of employees (full-time equivalent)	16	2,954	2,541

(1) Excluding special items in 2001 detailed in Table 4 on page 20A.

Outlook for 2002

Given the economic outlook, we are expecting modest revenue growth in 2002. Our focus will be on our ongoing cost-containment efforts and organizational restructuring designed to improve our client focus. We expect that our cost performance will offset any weakness in revenues, resulting in moderate cash net income growth. The key risk to our outlook for 2002 is a prolonged economic slowdown which could result in continued lower trading volumes and weakness in merger and acquisition, new issue and advisory activities.

Strategy by division

Core financial performance by division

Global Banking

Global Banking offers a full range of credit and corporate finance products including debt and equity underwriting, mergers & acquisitions advice and execution, private equity, mezzanine debt, syndicated loans, asset securitization and structured finance.

Objectives for 2002 include:

- Within the new Capital Markets Services structure (see highlights, page 12), continuing to provide clients with creative, well-executed solutions based upon our focused industry expertise, our capital markets insight and our breadth of product capability
- Integration of our U.S. and Canadian investment banking teams
- Expansion of our structured finance and securitization capabilities
- Focused and active management of the loan portfolio, which is expected to further reduce the size of our corporate lending base while enhancing the quality of earnings from this source

Global Banking's revenues were unchanged from last year, despite material slowing in merger activity. The decline in revenues from mergers & acquisitions was offset by a 14% increase in corporate lending revenues due to wider spreads, and an increase in other lending fees. The provision for credit losses was $407 million, up from $91 million in 2000, largely reflecting credit deterioration in the U.S. telecommunications sector.

Core results

($ millions)	% change	2001	2000
Gross revenues	–	$ 855	$ 855
Average assets	–	28,400	28,500

Global Equity

Global Equity provides comprehensive Canadian equity research, sales and trading of listed equities and related products for institutional investors, distribution of new issues, and North American and international structured product solutions. As of November 1, 2001, our equity research, sales and trading functions were integrated with the Capital Markets Services division.

Our goal is to create a North American full-service boutique in information technology, health care, energy, mining and structured products, leveraging the integration of DRW into Capital Markets Services.

Objectives for 2002 include:

- Implementation of a new trading platform and internalization of an increased portion of our current order flow by the end of the second quarter
- Restructuring of our European sales & trading platform
- Sales & trading leveraging of hedge fund relationships

Global Equity's revenues were down 6% from 2000, reflecting lower trading volumes and reduced equity market volatility. Sales and trading was impacted by the weak capital market conditions, resulting in lower agency commissions, and new issue, proprietary trading and domestic derivatives revenues, compared to last year. Global Equity Derivatives offset a portion of this decline with 24% revenue growth in 2001.

Core results

($ millions)	% change	2001	2000
Gross revenues	(6)%	$ 684	$ 731
Average assets	10	15,700	14,300

Global Markets

Global Markets provides round-the-clock money market, fixed income, foreign exchange and currency risk management services and has an extensive global sales and trading network operating from hubs in Toronto, London, New York and Sydney. Service is also delivered through Global Market's Internet dealing platform, FX Direct. Fixed income capabilities include the underwriting, trading and distribution of corporate and government debt, interest rate and credit derivatives, Eurobonds and high-yield bonds.

Objectives for 2002 include:

- Continued expansion of our global derivative capabilities
- Continued delivery of e-commerce solutions to clients
- Ongoing leadership in our domestic markets and maintenance of our competitive position globally
- Continuing to take advantage of proprietary opportunities in the marketplace

Global Markets generated record revenues in 2001 of nearly $1 billion, up 33% from last year. All product lines within Global Markets reported record revenue growth, especially the fixed income and foreign exchange businesses. Business volumes from FX Direct, our proprietary Web-based foreign exchange trading system, increased 54% from 2000.

Core results

($ millions)	% change	2001	2000
Gross revenues	33%	$ 991	$ 744
Average assets	25	111,600	89,100

Dain Rauscher Wessels

The research capability of DRW has been the cornerstone of its successful investment banking, sales and trading activities. The industry focus of DRW complements areas of expertise in RBC Capital Markets, one of many factors that will drive the expansion of Capital Markets Services' North American platform as DRW is fully integrated into the division in 2002.

DRW was acquired in January 2001, and generated revenue of $246 million, of which 64% came from U.S. equity sales and trading, with the remainder from investment banking activities. DRW implemented a number of expense management initiatives in 2001 that will continue into 2002.

Core results

($ millions)	% change	2001	2000
Gross revenues	n.m.	$ 246	$ –
Average assets	n.m.	700	–

n.m. not meaningful

Transaction Processing

Business profile

This segment, operating under the RBC Global Services brand, offers specialized transaction processing services to commercial, corporate and institutional clients in domestic and select international markets. Key businesses include custody, correspondent banking, cash management, payments and trade finance.

Strategy

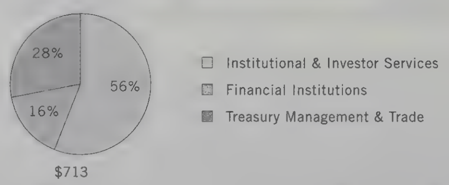
Key strategies for Transaction Processing include the following:

- Leverage client relationships and our leadership position in Canada to develop new business in select domestic and international markets
- Grow the business through key alliances, acquisitions and partnerships
- Align and build new product and service propositions such as offering outsourced mutual fund administration
- Continue to enhance our processing and systems platforms to deliver new capability and improved efficiencies, and to drive economies of scale

Stable, fee-based focus

Our processing businesses provide stability of earnings and high growth potential. We will continue to further diversify our revenue streams through the delivery of value-added services.

CORE REVENUES BY DIVISION ($ millions, taxable equivalent basis)



Core financial performance (1)

Transaction Processing showed cash net income and net income growth of 7% from last year. The segment continues to account for 6% of the total bank's cash net income.

Revenue growth of 6% in 2001 outpaced expense growth of 4%. The Investor Services division accounted for a large part of the revenue growth.

Economic Profit was $85 million, cash ROE was 31.1% and ROE was 29.4%. Declines in cash ROE and ROE largely reflected $100 million of additional average common equity allocated to the segment to underpin operational risk.

Core results (1)

($ millions, taxable equivalent basis, except percentage amounts)	% change	2001	2000
Net interest income	(6)%	**$ 150**	$ 160
Other income	10	**563**	514
Gross revenues	6	**713**	674
Recovery of provision for credit losses	(90)	**2**	21
Non-interest expenses	4	**476**	459
Net income before income taxes	1	**239**	236
Income taxes	7	**95**	102
Net income	7%	**$ 144**	$ 134
Cash net income	7%	**$ 152**	$ 142
Cash net income as a % of total bank cash net income	– bp	**6%**	6%
ROE	(280)bp	**29.4%**	32.2%
Cash ROE	(300)bp	**31.1%**	34.1%
Economic Profit	4%	**$ 85**	$ 82
Average common equity	25	**500**	400
Number of employees (full-time equivalent)	24	**2,553**	2,061

(1) There were no special items for Transaction Processing in 2000 or 2001 so core results are the same as reported results.

Outlook for 2002

Although revenues earned on deposits and cash balances are impacted by declines in interest rates, the bulk of our fee businesses are reasonably insulated from changes in the economic environment. As a result, with the inclusion of a full year of results for Perpetual Fund Services, and our growth initiatives, our goal is to achieve double-digit revenue growth in 2002. Transaction Processing will continue to focus on selling value-added services, such as securities lending and trade advisory services, to further diversify its revenue streams. In addition, we will work to expand new service propositions such as mutual fund administration outsourcing, and will be leveraging the Perpetual Fund Services acquisition.

Strategy by division

Institutional & Investor Services

Institutional & Investor Services is Canada's largest custodian as measured by assets under administration (AUA), and a recognized provider of custody and related securities services to corporate and institutional investors worldwide. Institutional & Investor Services operates from 13 locations throughout the world, with a global custody network spanning more than 80 markets.

Our goal is to protect and build our core Canadian franchise and be a focused global provider for fund managers, financial institutions and private banks. We will leverage the Perpetual Fund Services acquisition, which provides us with a full-service operational unit, to accelerate our growth opportunities in Australia and Asia-Pacific.

Our strategic alliance with CI Mutual Funds is a major initiative to increase business relationships with fund companies to tailor solutions that increase their efficiency and competitiveness in the marketplace. We are looking to explore more of these mutual fund outsourcing opportunities over the next year.

Core financial performance by division

Revenues grew 11% in 2001, driven by fee growth from new business and from value-added services. AUA grew 2% from 2000. The Perpetual Fund Services acquisition added $60 billion in AUA in 2001, but the impact of equity market declines on AUA largely offset this addition.

Core results

($ millions)	% change	2001	2000
Gross revenues	11%	$ 398	$ 360
AUA	2	936,700	920,000

Financial Institutions

A comprehensive range of correspondent banking services are provided to banks globally and to broker-dealers within Canada, including cash management, payments, clearing, trade, foreign exchange, derivatives lending, securities lending, custody and settlement, and structured financing.

We will leverage client relationships and our leadership position in the Canadian dollar clearing market to develop new business flows in targeted international markets and value-added solutions for our clients.

In 2002, we continue to target winning more than 50% of the available Continuous Linked Settlement mandates awarded in Canada.

Revenues decreased 4% from 2000, due largely to the movement of certain revenues from Transaction Processing to Corporate & Investment Banking during 2000. Excluding this transfer, revenues would have increased 4%, reflecting fee growth partially offset by reduced spreads on deposits and loans.

Core results

($ millions)	% change	2001	2000
Gross revenues	(4)%	$ 113	$ 118
Average assets	67	2,000	1,200
Average deposits	–	1,700	1,700

Treasury Management & Trade

Treasury Management & Trade provides cash management services to the small and medium enterprise (SME), commercial, corporate and public sector segments, offering a broad range of electronic solutions including e-commerce and other Web-based technologies. Our Trade team provides Canadian and foreign importers and exporters with a variety of innovative trade products, services and counsel. Our payments centre facilitates a high volume of domestic and international payment services for clients around the world, and is the largest processor of Canadian dollar payments in Canada.

We are committed to meeting the changing needs of our business clients through a product offering that is delivered through various access channels. A key initiative that is underway involves the development of a robust and expandable Web-based cash management platform to support the ongoing introduction of Web channel products and services for business clients.

We are well positioned in our trade franchise to take advantage of developing trade trends and leverage alliance partners to build new revenue streams both in North America and globally.

Revenues increased 3% from 2000 as fee income growth of 11% offset a 9% decline in net interest income. The reduction in short-term interest rates in 2001 impacted spreads earned on deposit balances. Payment volumes grew 17% as the payment error rate continued to decline.

Core results

($ millions, volumes in thousands)	% change	2001	2000
Gross revenues	3%	$ 202	$ 196
Average deposits	3	6,000	5,800
Payment volumes	17	4,900	4,200
Payment errors (per 10,000 payments)	(1)	.81	.82

Financial priority: Revenue growth and diversification

Highlights

- Core (operating) revenues up 19%, reflecting acquisitions
- Excluding acquisitions, operating revenues up 3%
- Net interest income up 23%
- Net interest income margin of 2.00%, up 12 basis points
- Core other income up 15%
- Core other income 54% of total revenues

Net interest income

Net interest income was up 23% from 2000 to $6.5 billion. The majority of the increase stemmed from higher volumes of interest-earning assets, particularly from retail loans and assets resulting from acquisitions made in the last year. Net interest income would have been up 14% excluding the impact of recent acquisitions (Centura, Dain Rauscher, Liberty and Prism Financial).

In addition to acquisitions, net interest income benefited from lower funding costs for the equity derivatives portfolio reflecting lower interest rates. The trading revenues from the equity derivatives portfolio are recorded in other income.

As shown in Table 6 below, the net interest margin increased by 12 basis points from last year to 2.00%, as the benefits of a higher net interest margin in RBC Centura and lower funding costs for Global Equity Derivatives more than offset a narrower spread between the prime rate and core deposit funding costs resulting from a reduction in the average Canadian prime rate to 6.56% from 7.05% in 2000.

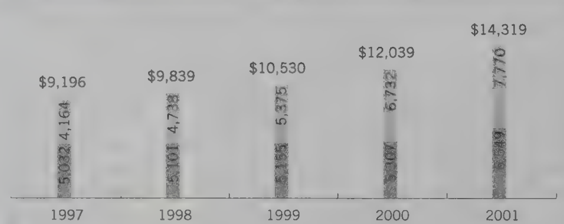
TABLE 6 **Net interest income and margin**

($ millions, except percentage amounts)	**2001**	2000	1999
Average assets	**$ 327,100**	$ 281,900	$ 269,900
Net interest income (1)	**6,549**	5,307	5,155
Net interest margin (2)	**2.00%**	1.88%	1.91%

(1) Taxable equivalent basis.
(2) Net interest income, on a taxable equivalent basis, as a percentage of average assets.

Strong core revenue growth

International expansion and diversified business drive core revenue growth of 19% in 2001. Annualized growth rate of 11.7%.



(1) Excluding special items, taxable equivalent basis.

Core other income

As shown in Table 9 on page 35A, core other income (i.e., excluding special items shown in Table 4 on page 20A) was $7.8 billion, up $1.0 billion or 15% from 2000, reflecting acquisitions. Core other income accounted for 54% of total core revenues, down from 56% in 2000 due to the acquisition of Centura, which derives a higher proportion of its revenues from net interest income than the bank.

Core other income was up 20% in Personal & Commercial Banking, 36% in Insurance, 26% in Wealth Management and 3% in Corporate & Investment Banking, partially reflecting acquisitions. Other income was up by 10% in Transaction Processing. Excluding the impact of acquisitions, core other income was down 6%. Although four business segments experienced revenue growth, this was more than offset by a decline in Wealth Management, which experienced substantially lower client trading volumes in its full-service and self-directed brokerage operations.

All sources of core other income improved in 2001, with the exception of loss on sale of securities, as the bank also wrote down some investments. Securitization revenues were up due to credit card and mortgage loan securitizations during the year, and the accounting for recognizing gains changed this year (see note 1 of the consolidated financial statements on page 64A), while credit fees were up due to increases in bankers' acceptances fees. Insurance revenues, investment management and custodial fees, trading revenues, deposit and payment service charges, and card service revenues all rose, partially due to acquisitions. Capital market fees and mutual fund revenues both grew by a modest 3%, reflecting the impact of weaker capital markets in 2001. Although Royal Mutual Funds experienced asset growth of over $300 million in 2001, clients moved out of higher-yielding products to lower-yielding money market funds over the past year. Other income was up substantially, largely reflecting revenues from acquisitions that are not included in other categories of other income and also reflecting substantially higher revenues at RBC Prism Mortgage this year.

Excluding the effect of acquisitions, deposits and payment service charges, insurance revenues, investment management and custodial fees, credit fees, and mutual fund revenues all rose from 2000, reflecting organic growth. Securitization revenues also rose, largely reflecting the activity mentioned above. However, excluding the impact of acquisitions, capital market fees and trading revenues were down from 2000, generally due to weaker capital markets.

Outlook

The bank is targeting core revenue growth of 7–10% in fiscal 2002. This is due to the inclusion of 12 months of revenues from RBC Centura, up from 5 months in fiscal 2001, and the expectation of an improvement in the economy in the second half of calendar 2002.

TABLE 7 Net interest income on average assets and liabilities

($ millions, taxable equivalent basis, except percentage amounts)	Average balances (1)			Interest (2)			Average rate		
	2001	2000	1999	**2001**	2000	1999	**2001**	2000	1999
Assets									
Deposits with other banks									
Canada	**$ 437**	$ 528	$ 289	**$ 18**	$ 22	$ 12	**4.12%**	4.17%	4.15%
International	**17,087**	14,740	15,596	**813**	802	714	**4.76**	5.44	4.58
	17,524	15,268	15,885	**831**	824	726	**4.74**	5.40	4.57
Securities									
Trading account	**51,429**	38,450	32,333	**2,143**	1,519	1,193	**4.17**	3.95	3.69
Investment account	**21,154**	20,142	17,519	**1,125**	1,129	973	**5.32**	5.61	5.55
Loan substitute	**463**	495	703	**45**	49	59	**9.72**	9.90	8.39
	73,046	59,087	50,555	**3,313**	2,697	2,225	**4.54**	4.56	4.40
Loans (3)									
Canada									
Residential mortgage	**62,448**	59,860	58,176	**4,087**	3,891	3,792	**6.54**	6.50	6.52
Personal	**28,089**	26,949	24,347	**2,325**	2,290	1,945	**8.28**	8.50	7.99
Credit card	**4,586**	3,559	2,297	**556**	405	226	**12.12**	11.38	9.84
Business and government	**32,347**	32,927	32,152	**1,281**	1,506	1,399	**3.96**	4.57	4.35
Assets purchased under reverse repurchase agreements	**14,206**	12,713	12,005	**731**	693	604	**5.15**	5.45	5.03
	141,676	136,008	128,977	**8,980**	8,785	7,966	**6.34**	6.46	6.18
International									
Loans	**32,836**	24,495	27,405	**3,783**	3,446	3,032	**11.52**	14.07	11.06
Assets purchased under reverse repurchase agreements	**15,385**	9,016	9,764	**432**	385	289	**2.81**	4.27	2.96
	48,221	33,511	37,169	**4,215**	3,831	3,321	**8.74**	11.43	8.93
	189,897	169,519	166,146	**13,195**	12,616	11,287	**6.95**	7.44	6.79
Total interest-earning assets	**280,467**	243,874	232,586	**17,339**	16,137	14,238	**6.18**	6.62	6.12
Non-interest-bearing deposits with other banks	**267**	162	341						
Customers' liability under acceptances	**9,890**	10,281	9,508						
Other assets	**36,476**	27,583	27,465						
Total assets	**$ 327,100**	$ 281,900	$ 269,900	**$ 17,339**	$ 16,137	$ 14,238	**5.30%**	5.72%	5.28%
Liabilities and shareholders' equity									
Deposits (4)									
Canada	**$ 110,228**	$ 107,533	$ 104,919	**$ 4,712**	$ 5,060	$ 4,480	**4.27%**	4.71%	4.27%
International	**89,629**	70,575	66,498	**4,000**	3,997	3,156	**4.46**	5.66	4.75
	199,857	178,108	171,417	**8,712**	9,057	7,636	**4.36**	5.09	4.45
Obligations related to securities sold short	**16,509**	14,195	15,015	**654**	656	554	**3.96**	4.62	3.69
Obligations related to assets sold under repurchase agreements	**19,892**	11,873	12,169	**894**	653	532	**4.49**	5.50	4.37
Subordinated debentures	**6,723**	5,129	4,499	**405**	344	286	**6.02**	6.71	6.36
Other interest-bearing liabilities	**3,124**	3,042	5,574	**125**	120	75	**4.00**	3.94	1.35
Total interest-bearing liabilities	**246,105**	212,347	208,674	**10,790**	10,830	9,083	**4.38**	5.10	4.35
Non-interest-bearing deposits	**18,568**	15,654	13,379						
Acceptances	**9,890**	10,281	9,508						
Other liabilities	**36,621**	30,829	25,864						
	311,184	269,111	257,425	**10,790**	10,830	9,083	**3.47**	4.02	3.53
Shareholders' equity									
Preferred	**2,073**	1,975	2,211						
Common	**13,843**	10,814	10,264						
Total liabilities and shareholders' equity	**$ 327,100**	$ 281,900	$ 269,900	**$ 10,790**	$ 10,830	$ 9,083	**3.30%**	3.84%	3.37%
Net interest income as a % of total average assets	**$ 327,100**	$ 281,900	$ 269,900	**$ 6,549**	$ 5,307	$ 5,155	**2.00%**	1.88%	1.91%
Net interest income as a % of total average interest-earning assets									
Canada	**$ 182,892**	$ 176,781	$ 167,435	**$ 5,343**	$ 4,796	$ 4,405	**2.92%**	2.71%	2.63%
International	**97,575**	67,093	65,151	**1,206**	511	750	**1.24**	.76	1.15
Total	**$ 280,467**	$ 243,874	$ 232,586	**$ 6,549**	$ 5,307	$ 5,155	**2.34%**	2.18%	2.22%

(1) Calculated on a daily basis.

(2) Interest income includes loan fees of $328 million (2000 – $274 million; 1999 – $250 million). The taxable equivalent adjustment is based on the Canadian tax rate of 41.5% (2000 – 42.8%; 1999 – 43.0%) and U.S. federal tax rate of 39.5%.

(3) Average balances include impaired loans and are net of the allowance for credit losses.

(4) Deposits include savings deposits with average balances of $38 billion (2000 – $34 billion; 1999 – $33 billion), interest expense of $.6 billion (2000 – $.7 billion; 1999 – $.6 billion) and average rates of 1.58% (2000 – 2.06%; 1999 – 1.82%). Deposits also include time deposits with average balances of $44 billion (2000 – $38 billion; 1999 – $37 billion), interest expense of $2.0 billion (2000 and 1999 – $2.0 billion) and average rates of 4.55% (2000 – 5.26%; 1999 – 5.41%).

TABLE 8 Change in net interest income

($ millions, taxable equivalent basis)	2001 vs 2000 Increase (decrease) due to changes in average volume (1)	2001 vs 2000 average rate (1)	2001 vs 2000 Net change	2000 vs 1999 Increase (decrease) due to changes in average volume (1)	2000 vs 1999 average rate (1)	2000 vs 1999 Net change
Assets						
Deposits with other banks						
Canada	$ (4)	$ –	$ (4)	$ 10	$ –	$ 10
International	119	(108)	11	(41)	129	88
Securities						
Trading account	537	87	624	237	89	326
Investment account	55	(59)	(4)	147	9	156
Loan substitute	(3)	(1)	(4)	(19)	9	(10)
Loans						
Canada						
Residential mortgage	169	27	196	109	(10)	99
Personal	95	(60)	35	216	129	345
Credit card	123	28	151	139	40	179
Business and government	(26)	(199)	(225)	34	73	107
Assets purchased under reverse repurchase agreements	79	(41)	38	37	52	89
International						
Loans	1,035	(698)	337	(347)	761	414
Assets purchased under reverse repurchase agreements	209	(162)	47	(24)	120	96
Total interest income	$ 2,388	$ (1,186)	$ 1,202	$ 498	$ 1,401	$ 1,899
Liabilities						
Deposits						
Canada	$ 124	$ (472)	$ (348)	$ 114	$ 466	$ 580
International	951	(948)	3	203	638	841
Obligations related to securities sold short	99	(101)	(2)	(32)	134	102
Obligations related to assets sold under repurchase agreements	377	(136)	241	(13)	134	121
Subordinated debentures	99	(38)	61	42	16	58
Other interest-bearing liabilities	4	1	5	(47)	92	45
Total interest expense	1,654	(1,694)	(40)	267	1,480	1,747
Net interest income	$ 734	$ 508	$ 1,242	$ 231	$ (79)	$ 152

(1) Volume/rate variance is allocated on the percentage relationship of changes in balances and changes in rates to the total net change in net interest income on a taxable equivalent basis.

TABLE 9 **Other income**

($ millions, except percentage amounts)	2001	2000	1999	2001 vs 2000 Increase (decrease)	
Capital market fees	$ 1,870	$ 1,810	$ 1,209	$ 60	3%
Trading revenues	1,820	1,540	1,106	280	18
Investment management and custodial fees	895	684	547	211	31
Deposit and payment service charges	887	756	688	131	17
Mutual fund revenues	546	528	479	18	3
Card service revenues	458	420	362	38	9
Foreign exchange revenues, other than trading	312	299	243	13	4
Credit fees	237	212	189	25	12
Insurance revenues	201	191	161	10	5
Securitization revenues	123	115	222	8	7
Gain (loss) on disposal of premises and equipment	22	(16)	(5)	38	238
Gain (loss) on sale of securities	(128)	(11)	18	(117)	n.m.
Other	527	204	156	323	158
Total core	7,770	6,732	5,375	1,038	15
Special items (1)	445	–	105	445	n.m.
Total	$ 8,215	$ 6,732	$ 5,480	$ 1,483	22%

(1) Special items in 2001 are described in Table 4 on page 20A. Special items in 1999 of $105 million consisted of a gain on sale of real estate of $95 million and gain on sale of securities of $28 million, offset by writedowns of certain investments of $18 million.
n.m. not meaningful

TABLE 10 **Trading revenues**

($ millions)	2001	2000	1999
Net interest income (1)	$ (68)	$ (365)	$ 5
Other income (2)	1,820	1,540	1,106
Total	$ 1,752	$ 1,175	$ 1,111
By product			
Equity	$ 684	$ 495	$ 325
Fixed income and money markets (3)	726	378	492
Foreign exchange contracts (4)	340	301	290
Commodity and precious metals	2	1	4
Total	$ 1,752	$ 1,175	$ 1,111

(1) Includes interest earned on trading securities and other cash instruments held in the trading portfolios less funding costs associated with trading-related derivative and security positions.
(2) Primarily includes realized and unrealized gains and losses on trading securities, derivative instruments and foreign exchange trading activities.
(3) Includes Canadian government securities and corporate debt instruments, swaps, interest rate options, interest rate futures, forward rate agreements and related cash instruments used to hedge the trading derivatives portfolios.
(4) Includes foreign exchange spot, forward, futures and options contracts.

Trading revenues

Trading revenues include gains and losses on securities and derivatives that the bank trades actively, or expects to hold for short periods, and whose values are marked-to-market daily. A description of trading revenues included in net interest income and other income is provided in footnotes (1) and (2) to Table 10 above.

Total trading revenues were up $577 million or 49% in 2001, partially reflecting acquisitions in the last year. The bank continues to avoid large proprietary trading positions and conducts the majority of trading to accommodate clients in the major G7 markets and currencies. Trading revenues recorded in net interest income increased by $297 million in 2001, with $118 million and $28 million, respectively, relating to the equity derivatives portfolio and acquisitions during the year. These two factors accounted for $(63) million and $318 million, respectively, of the $280 million increase in trading revenues included in other income. As mentioned on page 32A, funding costs from the Global Equity Derivatives portfolio are included in net interest income and the revenues are recorded in other income.

Excluding acquisitions, trading revenues in other income decreased $38 million from 2000, largely reflecting weaker capital markets in 2001.

With respect to products, as shown in Table 10 above, revenues from equity contracts increased 38%, largely reflecting lower funding costs in the equity derivatives business. Revenues from debt instruments grew 92% due to the flattening of the fixed income yield curve, while trading revenues from foreign exchange contracts rose 13%.

Financial priority: Cost control

Highlights

- Core non-interest expenses up 27% from 2000
- Operating non-interest expenses excluding acquisitions were up 2% from 2000

Performance

As shown in the table below, core non-interest expenses (i.e., excluding special items mentioned in Table 4 on page 20A) were up $2.1 billion or 27% from 2000.

Operating non-interest expenses (which exclude the special items mentioned in Table 4 on page 20A, the costs of Stock Appreciation Rights (SARs) and certain acquisition costs such as retention compensation) were up 26% in 2001, with $176 million of retention compensation expenses relating to the Dain Rauscher acquisition, and SAR expenses of $23 million compared to $52 million in 2000. SARs were first granted under the Stock Option Plan in November 1999, and their costs are determined every quarter based upon the change in the bank's share price and the vesting, which occurs over time.

Non-interest expenses of recent acquisitions (including costs of amortizing goodwill and other intangibles) were $1,823 million in 2001 up from $63 million in 2000. Excluding these costs, operating non-interest expenses were up 2% from 2000.

During 2001, certain pension, postretirement and postemployment plans were reviewed. This review resulted in changes to assumptions used to determine future benefit obligations and, as a result, an additional $87 million of human resource benefit costs were recorded.

Also, capital market-related businesses within Corporate & Investment Banking and Wealth Management accelerated efforts to adjust capacity in their operations in light of deteriorating market conditions, which were exacerbated by the September 11 terrorist attacks in the U.S. This resulted in $57 million of expenses, primarily related to employee severance costs.

Furthermore, as part of the reorganization of the Global Private Banking business described on page 26A, a $38 million writedown of goodwill relating to Connor Clark Limited was recorded and this expense was included in total amortization of goodwill and other intangibles. Connor Clark, a high net worth private client business, was acquired in 1999.

Excluding these employee benefit, downsizing and goodwill writedown costs and the non-interest expenses recorded during the year for recent acquisitions, adjusted operating non-interest expenses would have been down $6 million, as shown in the table below. Wealth Management would have been down $134 million or 7%, Corporate & Investment Banking down $38 million or 3%, Personal & Commercial Banking up $123 million or 3%, Transaction Processing up $17 million or 4% and Insurance up $23 million or 14%. The increases in Personal & Commercial Banking, Transaction Processing and Insurance reflect the growth in their businesses. The reductions in Wealth Management and Corporate & Investment Banking largely reflect lower variable compensation in the weaker capital markets environment and cost control efforts.

On this same basis (i.e., excluding all of the above-mentioned costs) human resource costs would have been down 6%, occupancy costs up 9%, professional fees up 21%, amortization of goodwill and other intangibles costs up 19% and other costs up 52%. The significant increase in other costs is largely related to a change at the beginning of 2001 in the ownership status of Symcor, an outsourcing service provider, which resulted in a change to the accounting for expenses related to Symcor. Symcor is no longer accounted for as a joint venture, but as an equity investment. In 2001, $303 million of Symcor-related costs were included in other non-interest expenses, whereas in 2000, $264 million of costs relating to Symcor were recorded in a variety of expense categories, primarily in communications, human resources and equipment.

Adjusted non-interest expenses

Adjusted operating non-interest expenses, excluding acquisitions, unchanged from 2000 ($ millions, except percentage amounts)	2001	2000	2001 vs 2000 Increase (decrease)	
Non-interest expenses	**$ 9,755**	$ 7,581	**$ 2,174**	**29%**
Less: Special items (1)	**(91)**	–	**(91)**	
Core non-interest expenses	**9,664**	7,581	**2,083**	**27**
Less: Costs of Stock Appreciation Rights	**(23)**	(52)	**29**	
RBC Dain Rauscher retention compensation	**(176)**	–	**(176)**	
Operating non-interest expenses	**9,465**	7,529	**1,936**	**26**
Less: Non-interest expenses of recent acquisitions (2)	**(1,823)**	(63)	**(1,760)**	
Operating non-interest expenses, excluding acquisitions	**7,642**	7,466	**176**	**2**
Less: Significant 2001 expenses (3)	**(182)**	–	**(182)**	
Adjusted operating non-interest expenses, excluding acquisitions	**$ 7,460**	$ 7,466	**$ (6)**	**–**

(1) Shown in Table 4 on page 20A.
(2) Represents non-interest expenses incurred by recently acquired companies (Centura, Liberty, Dain Rauscher and Prism Financial) and excludes retention compensation and cost-cutting already deducted to calculate operating non-interest expenses.
(3) Consists of $87 million of human resource benefit costs, $57 million of expenses related to cost cutting and a $38 million writedown of goodwill, all described above.

Outlook

In 2002, the bank expects to grow operating expenses at a lower rate than operating revenues.

TABLE 11 **Non-interest expenses**

($ millions, except percentage amounts)	2001	2000	1999	2001 vs 2000 Increase (decrease)	
Human resources					
Salaries	$ 3,083	$ 2,496	$ 2,594	$ 587	24%
Variable compensation	1,897	1,662	927	235	14
Benefits	721	493	428	228	46
	5,701	4,651	3,949	1,050	23
Occupancy					
Net premises rent	561	384	262	177	46
Premises repairs and maintenance	55	68	88	(13)	(19)
Depreciation	91	81	92	10	12
Property taxes	6	15	41	(9)	(60)
Energy	11	22	33	(11)	(50)
	724	570	516	154	27
Equipment					
Office and computer rental and maintenance	431	376	376	55	15
Depreciation	298	289	297	9	3
	729	665	673	64	10
Communications					
Telecommunication	290	225	225	65	29
Marketing and public relations	180	173	182	7	4
Postage and courier	108	170	157	(62)	(36)
Stationery and printing	108	127	129	(19)	(15)
	686	695	693	(9)	(1)
Professional fees	391	267	274	124	46
Amortization of goodwill and other intangibles	284	87	66	197	226%
Other					
Business and capital taxes	171	134	114	37	28
Deposit insurance	30	30	71	–	–
Travel and relocation	121	85	90	36	42
Employee training	43	38	48	5	13
Donations	35	26	29	9	35
Other	749	333	343	416	125%
	1,149	646	695	503	78
Total core	9,664	7,581	6,866	2,083	27
Special items (1)	91	–	194	91	n.m.
Total	$ 9,755	$ 7,581	$ 7,060	$ 2,174	29%

(1) Special items in 2001 are described in Table 4 on page 20A. Special items in 1999 of $194 million related to a $153 million restructuring charge and other charges aggregating $41 million.
n.m. not meaningful

Focus on cost control

The bank is sustaining its focus on cost control, and a number of cost-saving measures initiated in each business segment in 2001 will continue into 2002 and 2003.

Personal & Commercial Banking intends to sustain flat non-interest expenses, offsetting expenses associated with increased volumes and new initiatives with cost reductions. There are four parts to this strategy:

- Eliminating duplication and other process inefficiencies. As an example, in August 2001, the credit card business was integrated into Personal & Commercial Banking's product and sales structure
- Strengthening electronic and other low-cost delivery capabilities
- Optimizing the physical network. Since 1993, Personal & Commercial Banking has streamlined its physical network, with a net reduction of over 400 service delivery units. At the same time, it has implemented an urban, suburban and rural branch configuration strategy, complemented by selective in-store banking facilities and agencies on First Nations reserves, to ensure that branches are responsive to the different needs in different markets
- Pursuing outsourcing/co-sourcing and divestiture opportunities. During the first quarter of 2001, Personal & Commercial Banking outsourced its automated banking machine operations to NCR and also created Moneris Solutions, a joint venture with Bank of Montreal that is focused on merchant card acquiring business

Additionally, RBC Centura, acquired in 2001, plans to continue achieving cost savings in the U.S. retail banking platform. RBC Centura has set itself the medium-term (3–5 year) goal of expense growth in the 3–4% range, below their target revenue growth rate of 6–8%. Annual expense savings of US$70 million are to be generated from the consolidation of Security First Network Bank's back-office and call centre operations into RBC Centura in mid-August 2001, from utilizing the buying power of the bank and by combining the human resource, finance and marketing functions of RBC Centura, RBC Prism Mortgage and RBC Builder Finance into one central location during 2002.

A major focus for the Insurance segment is to integrate systems and business processes both within Canada and the U.S. Integration opportunities are largely technology-based. Insurance is already leveraging eBusiness capabilities to both increase revenue and reduce costs by selling travel insurance, and by providing home & auto insurance quotes and personal accident life insurance quotes on the Internet to Canadian clients.

RBC Liberty Insurance in the U.S. is focusing on expense reductions and is working to centralize information technology infrastructures, consolidate applications software within the platform and reduce overhead costs.

Wealth Management's cost-cutting program, initiated in 2001 to offset market weakness, will continue into 2002. In October 2001, the segment combined the RBC Private Counsel and the Canadian personal trust and private banking businesses with Global Private Banking to provide clients with more valuable offerings and to create operational efficiencies. Additionally, Action Direct's (self-directed brokerage) capacity was adjusted for current market conditions. The segment is now targeting savings in technology, marketing and operations across all business units and continues to look at other ways to permanently reduce non-interest expense.

The U.S. Wealth Management platform, RBC Dain Rauscher, is focusing on the integration of the Tucker Anthony Sutro acquisition, which closed on October 31, 2001. Over US$60 million in annual cost savings have been targeted, with over 50% of those savings expected to be achieved in 2002 and the remainder in 2003. There are a variety of initiatives that are being pursued to achieve these savings, including reducing overlapping positions and leveraging scale opportunities that already exist in RBC Dain Rauscher's platform.

Corporate & Investment Banking continues to view cost control as a critical priority. For example, the segment managed to keep its staff count flat during 1998–2000, despite adding almost 120 personnel in new initiatives. The growth of 413 personnel in 2001 largely reflected acquisitions. Over the last two quarters of 2001, Corporate & Investment Banking began cutting costs and, with the events of September 11, accelerated its efforts. This cost cutting will be achieved by reviewing all levels of the organization, but will primarily be directed at downsizing the Capital Markets Services business.

The Transaction Processing segment has a relatively high fixed cost base, is a scale business and is targeting continuing improvements in operating efficiency. The key levers to achieve this are continuing technology investments and revenue growth. Greater volumes are expected to be achieved through both organic revenue growth and selective acquisitions, which should also provide opportunities for cost savings through integration.

TABLE 12 **Taxes**

($ millions, except percentage amounts)	2001	2000	1999
Income taxes			
Consolidated statement of income	$ **1,340**	$ 1,445	$ 1,015
Taxable equivalent adjustment	**32**	28	35
	1,372	1,473	1,050
Other taxes			
Goods and services and sales taxes	**221**	208	187
Payroll taxes	**237**	188	176
Provincial capital taxes	**146**	108	98
Property taxes (1)	**6**	16	55
Business taxes	**25**	26	16
Insurance premium taxes	**21**	11	6
	656	557	538
Total	$ **2,028**	$ 2,030	$ 1,588
Effective income tax rate (2)	**34.7%**	38.6%	36.5%
Effective total tax rate (3)	**44.6%**	46.9%	47.4%

(1) Includes amounts netted against other income regarding investment properties.
(2) Income taxes reported in the consolidated statement of income, as a percentage of net income before income taxes.
(3) Total income taxes and other taxes as a percentage of net income before income taxes and other taxes expressed on a taxable equivalent basis.

Income and other taxes

Income and other taxes shown in Table 12 above were $2.0 billion in 2001, comprising income taxes of $1,372 million (including a taxable equivalent adjustment) and other taxes of $656 million. Income taxes declined by $101 million from 2000, largely due to decreases in tax rates. Other taxes were up $99 million as a result of higher goods and services tax and sales taxes, payroll taxes and provincial capital taxes.

As shown above, the effective income tax rate decreased from 38.6% in 2000 to 34.7% in 2001, reflecting a reduction in federal and provincial tax rates in Canada as well as lower tax rates applicable to special items discussed in Table 4 on page 20A.

In addition to the income and other taxes reported in the consolidated statement of income, the bank recorded income tax benefits of $644 million in 2001 ($37 million in 2000) in shareholders' equity as shown in note 10 of the consolidated financial statements.

Financial priority: Balance sheet and capital management

Highlights

- Strong growth in consumer loans of 9%
- Deposits up 15%, partially due to the acquisition of Centura Banks, Inc.
- Issued $3.9 billion, and repurchased $500 million, of common shares
- Issued $250 million, and redeemed $300 million, of preferred shares
- Issued $1 billion, and redeemed US$350 million, of subordinated debentures
- Issued $750 million of innovative Tier 1 capital (RBC TruCS™)
- Internally generated capital of $1.4 billion

Total assets were $359 billion at October 31, 2001, up $70 billion or 24% from October 31, 2000, with RBC Centura (acquired in June 2001) accounting for $22 billion of the increase.

Total loans and acceptances (before deducting the allowance for loan losses) were up $31.0 billion or 17% from October 31, 2000, with consumer loans (residential mortgage, personal and credit card loans) up $8.6 billion or 9%, with RBC Centura contributing $4.3 billion of this increase. Residential mortgages were up $4.5 billion or 7% (net of $800 million of mortgage securitizations during the year) and personal loans were up $4.5 billion or 16%. RBC Centura contributed $1.2 billion and $3.0 billion, respectively, to these increases. Credit card balances decreased $380 million or 8%, as credit card securitizations of $1.0 billion more than offset growth of $620 million, including $130 million of card balances in RBC Centura. Business and government loans and acceptances were up $4.9 billion or 7%, but were down $3.4 billion or 5% excluding RBC Centura, largely reflecting reductions in the Canadian small business and U.S. corporate loan portfolios. Assets purchased under reverse repurchase agreements were up $17.5 billion.

Total deposits were $233 billion, up $30.6 billion or 15% from October 31, 2000, with RBC Centura contributing $11.6 billion of the increase. Interest-bearing deposits were up $27.9 billion and non-interest-bearing deposits were up $2.7 billion ($18.1 billion and $864 million, respectively, excluding RBC Centura). Personal deposits were up $11.7 billion or 13% and business and government deposits were up $13.5 billion or 14% ($3.5 billion or 4% and $10.1 billion or 11%, respectively, excluding RBC Centura). Further details on deposits are provided in Table 24 on page 55A.

RBC Capital Trust, a closed-end trust, issued a second series of transferable trust units (RBC TruCS) in 2001 for $750 million, bringing the outstanding total to $1.4 billion. RBC TruCS are reported as a non-controlling interest in subsidiaries on the consolidated balance sheet, and are included in Tier 1 capital under guidelines issued by the Superintendent of Financial Institutions Canada (OSFI).

Total balance sheet capital, which includes shareholders' equity and subordinated debentures, was $24.5 billion at October 31, 2001, up $5.1 billion or 26% from a year ago. The most significant factors behind the increase in capital over 2000 were net external capital financing of $3.9 billion and internal capital generation of $1.4 billion during 2001.

Capital management

Capital management requires balancing the desires for strong capital ratios and maintaining high debt ratings with the need to also provide competitive returns to shareholders. In striving for this balance, the bank considers expected levels of risk-adjusted assets and balance sheet assets, future investment plans and the costs and terms of current and potential capital issues.

The bank is committed to maintaining strong capital ratios through internal capital generation, the issuance of capital instruments when appropriate, and controlled growth in risk-adjusted assets. The significant capital management activity table on page 40A details the bank's capital activities during the year. These were undertaken to manage the bank's capital structure as it implemented its strategies.

Regulatory capital

Capital levels for Canadian banks are regulated pursuant to guidelines issued by OSFI, based on standards issued by the Bank for International Settlements (BIS) and Canadian GAAP financial information.

Regulatory capital, which differs from capital recorded on the consolidated balance sheet, is allocated into two tiers. Tier 1 capital comprises the more permanent component of capital. The components of Tier 1 and Tier 2 capital are shown in Table 13 on page 41A.

Regulatory capital ratios are calculated by dividing Tier 1 and Total capital by risk-adjusted assets. Risk-adjusted assets, as shown in Table 14 on page 42A, are determined by applying prescribed risk weights to balance sheet assets and off-balance sheet financial instruments according to the relative credit risk of the counterparty. Risk-adjusted assets also include an amount for the market risk exposure associated with the bank's trading portfolio.

The bank's policy is to remain well capitalized so as to provide a safety net for the variety of risks that it is exposed to in the conduct of its business. In 1999, OSFI formally established risk-based capital targets for deposit-taking institutions in Canada. These targets are a Tier 1 capital ratio of at least 7% and a Total capital ratio of at least 10%. As at October 31, 2001, the bank's Tier 1 and Total capital ratios were 8.7% and 11.8%, respectively, compared to 8.6% and 12.0% at October 31, 2000. Despite paying $7.0 billion for U.S. acquisitions in 2001 (see note 2 of the consolidated financial statements on pages 65A and 66A), the bank maintained capital ratios that were consistent with its medium-term goals (shown on page 6). The bank's capital ratios on a U.S. basis, calculated using guidelines issued to U.S. banks by the Board of Governors of the Federal Reserve System and using U.S. GAAP financial information, are provided in Table 13 on page 41A.

Pending developments

In 1999, BIS issued a proposal for a new capital adequacy framework to replace the previous Capital Accord of 1988, under which the bank is currently regulated. This proposal continues to be at the discussion phase subsequent to the issue of a second consultative paper in January 2001. It is difficult at this stage to estimate the impact of these proposed amendments on the bank's regulatory capital requirements. Implementation of the final proposals is not likely to occur prior to 2005.

Significant capital management activity in 2001 (1)

($ millions)	
Capital market activity	
Common shares	
December 2000, issued common equity	**$ 576**
June 2001, issued common equity in exchange for all the outstanding shares of Centura Banks, Inc.	**3,317**
June 2001, commenced repurchase of common shares (2)	**(509)**
Preferred shares (3)	
June 2001, issued perpetual Non-cumulative First Preferred Shares Series S	**250**
August 2001, redeemed all of the Non-cumulative First Preferred Shares Series H	**(300)**
Subordinated debentures (4)	
January 2001, issued subordinated debentures	**500**
February 2001, issued subordinated debentures	**125**
April 2001, issued subordinated debentures	**400**
May 2001, redeemed US$350 million floating-rate debentures	**(538)**
Innovative Tier 1 capital (RBC TruCS)	
December 2000, issued a second series of RBC TruCS	**750**
	$ 4,571
Other activity	
Share capital	
In the second quarter, the limit on the maximum aggregate consideration for which common shares may be issued was removed and the limit on the maximum aggregate consideration for which first preferred shares may be issued was increased from $5 billion to $10 billion. The limit on the maximum aggregate consideration for which second preferred shares may be issued remains unchanged at $5 billion.	

(1) Gross amounts before issuance costs.
(2) Under a normal course issuer bid to purchase up to 18 million common shares through the facilities of The Toronto Stock Exchange. By October 31, 2001, the bank had repurchased 10.9 million common shares. The program will be in effect for a period of one year from June 22, 2001.
(3) On November 26, 2001, the bank redeemed US$200 million of Non-cumulative First Preferred Shares Series I.
(4) On November 8, 2001, the bank issued US$400 million of subordinated debentures through the European Medium Term Note Programme.

TABLE 13 **Capital ratios** (1)

($ millions, except percentage amounts)	2001	2000	1999
Tier 1 capital			
Common equity	$ 16,141	$ 11,504	$ 10,606
Non-cumulative preferred shares	2,024	2,037	2,009
Non-controlling interest in subsidiaries			
RBC TruCS	1,400	650	–
Other	28	23	22
Goodwill	(4,742)	(647)	(611)
	14,851	13,567	12,026
Tier 2 capital			
Permanent subordinated debentures	477	457	441
Other subordinated debentures (2)	5,935	5,138	4,040
General allowance (3)	1,410	1,188	1,080
Non-controlling interest in subsidiaries	–	1	2
	7,822	6,784	5,563
Investment in insurance subsidiaries	(2,107)	(960)	(672)
Other substantial investments	(387)	(342)	(219)
First loss facility	(8)	(5)	–
Total capital	$ 20,171	$ 19,044	$ 16,698
Risk-adjusted assets	$ 171,047	$ 158,364	$ 149,078
Capital ratios (4)			
Common equity to risk-adjusted assets	9.4%	7.3%	7.1%
Tier 1 capital to risk-adjusted assets	8.7%	8.6%	8.1%
Total capital to risk-adjusted assets	11.8%	12.0%	11.2%
Assets-to-capital multiple (5)	17.2	15.3	16.5
U.S. basis (4), (6)			
Tier 1 capital to risk-adjusted assets	8.1%	7.8%	7.6%
Total capital to risk-adjusted assets	11.2%	11.3%	10.7%
Equity to assets (7)	5.3%	4.5%	4.6%
Tier 1 leverage (8)	4.1%	4.2%	4.1%

(1) Using guidelines issued by the Superintendent of Financial Institutions Canada and Canadian GAAP financial information except as noted in footnote (6).
(2) Subordinated debentures that are within five years of maturity are subject to straight-line amortization to zero during their remaining term and, accordingly, are included above at their amortized value.
(3) The general allowance for credit losses may be included in Tier 2 capital up to a maximum of .875% (2000 and 1999 – .75%) of risk-adjusted assets. On October 27, 2000, the bank entered into a five-year agreement with a AAA rated reinsurer, which requires the reinsurer to purchase up to $200 million of non-cumulative first preferred shares at the October 27, 2000 market price should the general allowance for credit losses be drawn down below a certain level. If these shares had been issued they would have qualified as Tier 1 capital.
(4) On November 26, 2001, the bank redeemed US$200 million of Non-cumulative First Preferred Shares Series I, which will reduce Tier 1 capital by the same amount. On November 8, 2001, the bank issued US$400 million of subordinated debentures, which increases Total capital by the same amount. Had these transactions taken place as at October 31, 2001, the pro forma capital ratios would have been: Tier 1 capital ratio – 8.5% and Total capital ratio – 12.0%. Using guidelines issued by the Board of Governors of the Federal Reserve System in the United States and U.S. GAAP financial information, the pro forma capital ratios would have been Tier 1 capital ratio – 7.9% and Total capital ratio – 11.4%.
(5) Total assets and specified off-balance sheet financial instruments, as determined by the Superintendent of Financial Institutions Canada, divided by Total capital.
(6) Using guidelines issued by the Board of Governors of the Federal Reserve System in the United States and U.S. GAAP financial information.
(7) Average total shareholders' equity divided by average total assets.
(8) Tier 1 capital divided by adjusted average assets net of the allowance for credit losses (includes gross derivative-related amounts, goodwill and deferred income taxes).

TABLE 14 **Risk-adjusted assets** (1)

($ millions, except percentage amounts)			Balance sheet amount	Predominant risk weight (2)	Risk-adjusted balance 2001	Risk-adjusted balance 2000
Balance sheet assets						
Cash resources			$ 17,535	20%	**$ 1,515**	$ 2,763
Securities						
Issued or guaranteed by Canadian or other OECD governments			25,559	0%	**–**	28
Other			54,948	100%	**7,341**	4,081
Residential mortgages (3)						
Insured			32,012	0%	**383**	375
Conventional			35,381	50%	**18,511**	17,008
Other loans and acceptances (3)						
Issued or guaranteed by Canadian or other OECD governments			14,134	0%	**1,810**	1,221
Other			133,376	100%	**97,553**	89,523
Other assets			46,315	0%	**6,114**	4,664
			$ 359,260		**$ 133,227**	$ 119,663
	Contract amount	Credit conversion factor	Credit equivalent amount			
Off-balance sheet financial instruments						
Credit instruments						
Guarantees and standby letters of credit						
Financial	$ 10,548	100%	$ 10,548	100%	**$ 8,629**	$ 8,758
Non-financial	2,843	50%	1,422	100%	**1,422**	1,626
Documentary and commercial letters of credit	750	20%	150	100%	**148**	86
Securities lending	21,377	100%	21,377	0%	**393**	417
Commitments to extend credit						
Original term to maturity of 1 year or less	44,179	0%	–	0%	**–**	–
Original term to maturity of more than 1 year	39,960	50%	19,980	100%	**18,821**	18,856
Uncommitted amounts	53,750	0%	–	0%	**–**	–
Note issuance/revolving underwriting facilities	132	50%	66	100%	**66**	77
	$ 173,539		$ 53,543		**$ 29,479**	$ 29,820
	Notional amount	Gross positive replacement cost (4)	Credit equivalent amount (5)			
Derivatives (6)						
Interest rate contracts						
Forward rate agreements	$ 95,678	$ 108	$ 543	20%	**$ 114**	$ 3
Swaps	697,902	17,568	21,390	20%	**5,617**	1,892
Options purchased	19,901	416	538	20%	**123**	61
	813,481	18,092	22,471		**5,854**	1,956
Foreign exchange contracts						
Forward contracts	546,436	6,839	12,977	20%	**3,881**	4,741
Swaps	74,819	1,902	5,536	20%	**1,261**	1,198
Options purchased	49,154	721	1,339	20%	**441**	452
	670,409	9,462	19,852		**5,583**	6,391
Other contracts (7)	37,071	1,227	3,264	50%	**986**	772
Total derivatives before netting	$ 1,520,961	28,781	45,587		**12,423**	9,119
Impact of master netting agreements		(18,832)	(24,450)		**(6,339)**	(3,713)
Total derivatives after netting		$ 9,949	21,137		**6,084**	5,406
Total off-balance sheet financial instruments			$ 74,680		**$ 35,563**	$ 35,226
General market risk					**2,257**	3,475
Total risk-adjusted assets					**$ 171,047**	$ 158,364

(1) Using guidelines issued by the Superintendent of Financial Institutions Canada and Canadian GAAP financial information.
(2) Represents the predominant counterparty risk-weighting for that category.
(3) Amounts are shown net of allowance for loan losses.
(4) Represents the total current replacement value of all outstanding contracts in a gain position.
(5) Consists of (i) the total positive replacement value of all outstanding contracts, and (ii) an amount for potential future credit exposure.
(6) Futures and some purchased options are traded on exchanges and are subject to daily margin requirements. Such instruments are excluded from the calculation of risk-adjusted assets as they are deemed to have no additional credit risk.
(7) Comprises precious metals, commodity, equity-linked and credit derivative contracts.

Financial priority: Strong credit quality

Highlights
- Gross impaired loans up 47% to $2.5 billion
- Net impaired loans to total loans of .08%, up from (.11)% in 2000
- Provision for credit losses up 62% to $1.1 billion
- Specific provision ratio of .53%, up from .32% in 2000
- Net write-offs ratio of .47%, versus .38% in 2000
- Allowance for credit losses up $417 million or 21% to $2.4 billion

Impaired loans
Loans are generally classified as impaired, meaning interest is not being accrued thereon, under circumstances described in note 1 of the consolidated financial statements on page 62A.

As indicated in Table 15 below, gross impaired loans increased $787 million from 2000 to $2,465 million at October 31, 2001. This reflects net additions of $1,912 million and write-offs and adjustments of $1,125 million.

As shown in Table 20 on page 49A, gross impaired loans in the United States increased $481 million. Business and government loans accounted for $442 million of this increase, with $272 million of this amount relating to six corporate clients in the U.S. telecommunication sector. U.S. commercial real estate and information technology sectors also experienced higher impaired loans, partially offset by a decrease in the U.S. industrial products sector. RBC Centura's gross impaired business and government loans were $103 million.

As shown in Table 16 on page 45A, gross impaired loans in Canada were up $254 million, comprising an increase of $234 million in business and government loans (mainly the transportation and environmental and agricultural sectors) and an increase of $20 million in consumer loans. The latter resulted from a $63 million increase in the personal portfolio and a $43 million decrease in the residential mortgage portfolio.

International gross impaired loans (excluding the United States, discussed above) were $216 million, up $52 million from last year. Most of this increase is attributable to the transportation and environmental sector.

As a percentage of related loans (after general allowance for loan losses), net impaired loans increased to .08% from (.11)% in 2000.

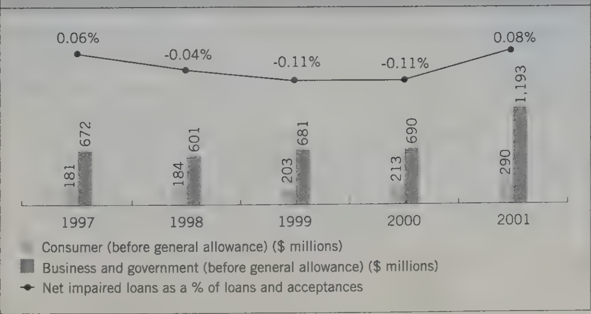
Outlook
The North American economy is expected to remain weak through the first half of calendar 2002 but to begin to recover in the second half. Based on this forecast, the level of impaired loans is not expected to increase significantly in fiscal 2002.

TABLE 15 **Change in gross impaired loans**

($ millions)	**2001**	2000	1999	1998	1997
Gross impaired loans at beginning of year	**$ 1,678**	$ 1,704	$ 2,001	$ 1,819	$ 2,376
Additions	**2,067**	1,146	990	1,271	705
Reductions	**(155)**	(333)	(247)	(643)	(624)
	1,912	813	743	628	81
Write-offs and adjustments	**(1,125)**	(839)	(1,040)	(446)	(638)
Gross impaired loans at end of year	**$ 2,465**	$ 1,678	$ 1,704	$ 2,001	$ 1,819

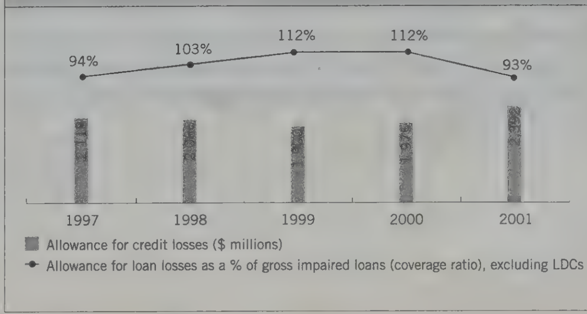
Net impaired loans

Business and government loans account for most of the growth in net impaired loans.



Allowance for credit losses

Coverage ratio near 1997 level.



Provision for credit losses

The provision for credit losses is charged to income by an amount necessary to bring the allowance for credit losses to a level determined appropriate by management, as discussed in the Allowance for credit losses section below.

The provision for credit losses was $1,119 million in 2001, up $428 million or 62% from 2000, as shown in Table 17 on page 46A.

As shown in Table 20 on page 49A, in the United States, the specific provision increased $278 million. Well over 90% of this increase was within the business and government portfolio and relating to six corporate clients in the U.S. telecommunication sector. There was also an increase in the U.S. commercial real estate sector and reductions in the U.S. transportation and environmental and U.S. industrial products sectors.

As shown in Table 17 on page 46A, in Canada, specific provisions for credit losses increased $163 million. A $168 million increase in the business and government provisions resulted from increases in the small business, forest products, energy and commercial real estate sectors that more than offset a reduction in the transportation and environmental sector. A $5 million net decrease in consumer provisions resulted from a decline in personal loan provisions, partially offset by small increases in residential mortgage and credit card provisions.

The specific provisions amounted to .53% of average loans (including reverse repurchase agreements) and bankers acceptances, up from .32% in 2000 and compared to a goal of .30–.40% for 2001.

Outlook

In light of the weak economy expected in the first half of calendar 2002, the bank expects a ratio of specific provisions for credit losses to average loans and bankers' acceptances of .45–.55% in fiscal 2002.

Allowance for credit losses

The allowance for credit losses is maintained at a level that management believes is sufficient to absorb probable losses in the loan and off-balance sheet portfolios. The individual elements as well as the overall allowance are evaluated on a quarterly basis. This evaluation is based on continuing assessments of problem accounts, recent loss experience and changes in other factors, including the composition and quality of the portfolio, economic conditions and regulatory requirements. The allowance is increased by the provision for credit losses, which is charged to income, and decreased by the amount of write-offs net of recoveries.

The determination of the allowance for credit losses is based upon estimates derived from historical analysis, adjusted for management's judgment relating to current assumptions. Therefore, the allowance for credit losses will inevitably differ from actual losses incurred in the future. To minimize these differences, management assesses the methodology and all significant assumptions on a regular basis.

As shown in Table 18 on page 47A, the allowance for credit losses increased $417 million between 2000 and 2001.

Net write-offs increased $263 million to $940 million in 2001. This is due to increases of $88 million in Canada and $175 million internationally. The vast majority of these increases result from write-offs in the business and government portfolios in Canada and internationally.

The allowance for credit losses comprises four components – specific, country risk, general allocated and general unallocated – as described in note 1 of the consolidated financial statements on page 62A.

Specific

Specific allowances are maintained to provide for the most likely losses on loans that have become impaired. Specific allowances for business and government loans are established on an individual borrower basis. Specific allowances for residential mortgages, personal loans and small business loans are determined on a portfolio basis using historical loss experiences on impaired loans. No specific allowance is maintained for credit cards, as these balances are charged off after 180 days if no payment has been received.

Country risk

Country risk allowances are maintained with respect to exposures to certain less developed countries (LDCs) based on an overall assessment of the outstanding exposure and underlying economic conditions in those countries.

General allocated

The general allocated allowance reflects the best estimate of probable losses that exist within that portion of the portfolio that has not yet been specifically identified as impaired. This amount is determined based on the application of statistical expected loss factors to outstanding and undrawn facilities. The expected loss factors have been determined by assessing statistical loss migrations, adjusted to reflect management's judgment regarding items that impact the quality of the portfolio.

General unallocated

The general unallocated allowance is determined through management's assessment of probable losses that are in the portfolio but not adequately captured in the determination of the specific, country risk and general allocated allowances. This assessment includes consideration of current economic and business conditions and regulatory requirements affecting key lending operations. It also reflects management's acknowledgement of the imprecise and subjective elements involved in modelling credit risk.

In addition to the above allowances, the bank entered into a five-year agreement in October 2000 with a AAA rated reinsurer to provide capital if exceptional losses occur in the bank's loan portfolio. The agreement requires the reinsurer to purchase up to $200 million in non-cumulative first preferred shares at the October 27, 2000 market price should the general allowance for credit losses be drawn below a certain level. In management's view, if these shares had been issued currently, based on existing regulatory guidelines, they would qualify as Tier 1 capital. The sale of the securities would mitigate the impact of loan losses on the capital base of the bank through the replenishment of capital.

TABLE 16 Impaired loans

	2001		2000		1999	1998	1997
($ millions, except percentage amounts)	Gross	Net (1)	Gross	Net (1)	Net (1)	Net (1)	Net (1)
Canada							
Atlantic provinces	$ 124	$ 67	$ 115	$ 65	$ 37	$ 24	$ 30
Quebec	282	204	198	121	158	142	185
Ontario	621	330	572	287	190	80	203
Prairie provinces	143	71	129	57	109	64	278
British Columbia	453	335	355	266	287	350	45
Total Canada	1,623	1,007	1,369	796	781	660	741
Consumer							
Residential mortgage	142	118	185	157	131	116	114
Personal	310	129	247	51	66	61	61
	452	247	432	208	197	177	175
Business and government							
Small business (2)	261	132	248	141	134	43	42
Agriculture (2)	111	86	53	39	49	31	34
Energy	27	9	–	–	32	5	2
Financial services	7	2	20	7	1	(1)	1
Commercial mortgages	22	5	16	–	7	5	22
Consumer goods	11	5	37	23	19	29	32
Commercial real estate	95	44	90	41	109	69	184
Industrial products	45	26	28	18	6	1	33
Transportation and environmental	274	222	185	120	12	3	218
Media and cable	43	15	36	17	30	23	2
Forest products	195	184	184	180	197	285	6
Automotive	18	5	5	4	–	–	–
Information technology	11	7	8	(2)	2	8	7
Other	51	18	27	–	(14)	(18)	(17)
	1,171	760	937	588	584	483	566
Total Canada	1,623	1,007	1,369	796	781	660	741
International							
United States	626	375	145	69	25	15	24
Europe	79	35	46	7	12	24	21
Caribbean	55	39	48	26	28	31	39
Latin America	14	5	9	3	3	1	13
Asia	37	22	33	2	35	54	15
	811	476	281	107	103	125	112
LDCs	31	–	28	–	–	–	–
Total international	842	476	309	107	103	125	112
Consumer							
Residential mortgage	37	35	14	5	6	7	6
Personal	15	8	–	–	–	–	–
	52	43	14	5	6	7	6
Business and government							
Energy	3	–	14	(2)	3	4	9
Financial services	83	24	41	(2)	22	15	9
Consumer goods	19	7	2	–	2	34	29
Commercial real estate	81	49	4	1	4	10	15
Industrial products	10	(2)	83	38	15	21	(6)
Transportation and environmental	91	58	56	25	–	1	2
Automotive	33	25	–	–	–	–	–
Telecommunication	272	122	–	–	–	–	–
Information technology	76	70	–	–	–	–	–
Other	122	80	95	42	51	33	48
	790	433	295	102	97	118	106
Total international	842	476	309	107	103	125	112
Total before general allowance	2,465	1,483	1,678	903	884	785	853
General allowance		(1,301)		(1,102)	(1,080)	(850)	(750)
Total (3), (4)	$ 2,465	$ 182	$ 1,678	$ (199)	$ (196)	$ (65)	$ 103
Net impaired loans as a % of related loans and acceptances (5)							
Canada							
Residential mortgage		.18%		.26%	.22%	.21%	.22%
Personal		.48		.19	.27	.28	.30
Business and government loans and acceptances		1.17		.99	1.05	.86	.96
		.63		.52	.55	.48	.55
International		.85		.33	.32	.31	.33
Total before general allowance for loan losses		.69%		.49%	.51%	.44%	.51%
Total after general allowance for loan losses		.08%		(.11)%	(.11)%	(.04)%	.06%

(1) Net of specific allowance.
(2) Includes government guaranteed portions of impaired loans of $95 million in small business in 2001 (2000 – $101 million; 1999 – $79 million) and $6 million in agriculture (2000 – $6 million; 1999 – $5 million). Prior to 1999, only the non-guaranteed portion was considered impaired.
(3) Includes foreclosed assets of $37 million in 2001 (2000 – $20 million; 1999 – $26 million; 1998 – $28 million; and 1997 – $45 million).
(4) Past due loans not included in impaired loans was $245 million in 2001.
(5) Loans in Canada include all loans booked in Canada, regardless of currency or residence of borrower.

TABLE 17 Provision for credit losses

($ millions, except percentage amounts)	2001	2000	1999	1998	1997
Canada					
Atlantic provinces	$ 63	$ 58	$ 32	$ 35	$ 37
Quebec	43	22	71	63	149
Ontario	398	342	52	144	13
Prairie provinces	81	64	95	53	29
British Columbia	104	40	192	132	37
Total Canada	689	526	442	427	265
Consumer					
Residential mortgage	8	–	4	9	12
Personal	265	301	172	171	114
Credit card	125	102	55	28	65
	398	403	231	208	191
Business and government					
Small business	164	105	113	48	51
Agriculture	20	4	2	4	1
Energy	17	(8)	12	1	(1)
Financial services	(9)	–	5	113	1
Commercial mortgages	7	2	8	6	18
Consumer goods	2	7	11	23	(29)
Commercial real estate	15	(17)	9	(30)	(78)
Industrial products	14	2	(10)	(6)	12
Transportation and environmental	13	56	7	(27)	(9)
Media and cable	13	12	8	4	4
Forest products	7	(36)	81	76	86
Automotive	17	–	–	–	–
Telecommunication	–	(1)	(32)	(29)	–
Information technology	3	8	8	5	1
Other	8	(11)	(11)	31	17
	291	123	211	219	74
Total Canada	689	526	442	427	265
International					
United States	377	99	45	(7)	(8)
Europe	(1)	(9)	21	10	(24)
Caribbean	(6)	3	–	3	7
Latin America	5	2	2	(2)	7
Asia	(19)	(50)	20	124	83
Australia and New Zealand	4	–	–	–	–
Total international	360	45	88	128	65
Consumer					
Residential mortgage	–	–	1	1	–
Personal	5	–	–	–	–
Credit card	2	–	–	–	–
	7	–	1	1	–
Business and government					
Energy	(8)	(2)	–	21	4
Financial services	(3)	(21)	2	36	(2)
Consumer goods	–	(7)	(10)	(5)	46
Commercial real estate	65	1	2	(2)	(1)
Industrial products	3	34	31	9	5
Transportation and environmental	8	42	–	(1)	1
Media and cable	3	–	–	–	–
Automotive	7	(8)	(2)	29	–
Telecommunication	272	–	–	–	–
Information technology	7	–	3	–	–
Other	(1)	6	61	40	12
	353	45	87	127	65
Total international	360	45	88	128	65
Total specific provision	1,049	571	530	555	330
Country risk provision	–	–	–	(80)	–
General allocated (1)	205	73	n.a.	n.a.	n.a.
General unallocated (1)	(135)	47	n.a.	n.a.	n.a.
Total general provision (1)	70	120	230	100	50
Total	$ 1,119	$ 691	$ 760	$ 575	$ 380
As a % of related average loans and acceptances					
Canada					
Residential mortgage	.01%	–%	.01%	.02%	.02%
Personal	.94	1.12	.71	.76	.59
Credit card	2.73	2.87	2.39	1.39	1.84
Business and government loans and acceptances	.52	.22	.40	.37	.14
	.45	.36	.32	.31	.21
International	.74	.13	.23	.31	.22
Total specific provision	.53%	.32%	.30%	.31%	.21%
Total provision for credit losses	.56%	.38%	.43%	.32%	.25%

(1) The general provision was not separated into the allocated and unallocated components prior to November 1, 1999.

TABLE 18 Allowance for credit losses

($ millions, except percentage amounts)	2001	2000	1999	1998	1997
Allowance at beginning of year	**$ 1,975**	$ 1,900	$ 2,066	$ 2,118	$ 2,235
Provision for credit losses	**1,119**	691	760	575	380
Write-offs					
Canada					
Residential mortgage	**(15)**	(11)	(14)	(17)	(34)
Personal	**(394)**	(372)	(236)	(163)	(138)
Credit card	**(169)**	(150)	(65)	(52)	(98)
Business and government	**(296)**	(225)	(524)	(250)	(361)
	(874)	(758)	(839)	(482)	(631)
International, excluding LDCs					
Residential mortgage	**(9)**	–	–	–	–
Personal	**(7)**	–	–	–	–
Credit card	**(2)**	–	–	–	–
Business and government	**(233)**	(81)	(229)	(29)	(28)
LDC exposures	**–**	–	(4)	(325)	(10)
	(251)	(81)	(233)	(354)	(38)
	(1,125)	(839)	(1,072)	(836)	(669)
Recoveries					
Canada					
Residential mortgage	**–**	–	2	6	9
Personal	**66**	44	31	26	21
Credit card	**44**	48	10	24	32
Business and government	**58**	48	66	80	62
	168	140	109	136	124
International, excluding LDCs					
Personal	**1**	–	–	–	–
Business and government	**16**	22	5	8	17
	17	22	5	8	17
	185	162	114	144	141
Net write-offs	**(940)**	(677)	(958)	(692)	(528)
Acquisition of Centura Banks, Inc.	**157**				
Adjustments	**81**	61	32	65	31
Allowance at end of year	**$ 2,392**	$ 1,975	$ 1,900	$ 2,066	$ 2,118
Net write-offs (excluding LDCs) as a % of average loans and acceptances	**.47%**	.38%	.54%	.21%	.34%
Net write-offs as a % of average loans and acceptances	**.47%**	.38%	.55%	.39%	.34%
Allocation of allowance (1)					
Canada					
Residential mortgage	**$ 45**	$ 46	$ 53	$ 50	$ 52
Personal	**447**	403	344	156	92
Credit card	**147**	88	60	–	–
Business and government	**791**	664	748	604	562
	1,430	1,201	1,205	810	706
International, excluding LDCs					
Residential mortgage	**4**	11	9	7	6
Personal	**33**	–	–	–	–
Credit card	**5**	–	–	–	–
Business and government	**581**	322	380	359	307
	623	333	389	366	313
Allocated allowance for loan losses (2)	**2,053**	1,534	1,594	n.a.	n.a.
General unallocated allowance for loan losses (2)	**225**	337	290	n.a.	n.a.
Total allowance for loan losses	**2,278**	1,871	1,884	2,026	1,769
Allowance for off-balance sheet and other items (3)	**109**	98	–	–	–
Allowance for loan substitute securities	**5**	6	16	40	30
Allowance for country risk securities	**–**	–	–	–	319
Total allowance for credit losses	**$ 2,392**	$ 1,975	$ 1,900	$ 2,066	$ 2,118
Composition of allowance					
Specific, including allowance for loan substitute securities	**$ 951**	$ 747	$ 786	$ 1,176	$ 932
Country risk	**31**	28	34	40	436
General allocated allowance for credit losses (4)	**1,185**	863	790	n.a.	n.a.
General unallocated allowance for credit losses	**225**	337	290	n.a.	n.a.
Total general allowance for credit losses	**1,410**	1,200	1,080	850	750
Total allowance for credit losses	**$ 2,392**	$ 1,975	$ 1,900	$ 2,066	$ 2,118
Percentage of loans to total loans					
Canada					
Residential mortgage	**30%**	33%	34%	32%	32%
Personal	**12**	15	14	12	12
Credit card	**2**	2	1	1	1
Business and government	**30**	32	32	32	35
	74	82	81	77	80
International	**26**	18	19	23	20
Total	**100%**	100%	100%	100%	100%
Allowance for loan losses as a % of loans (including reverse repurchase agreements) and acceptances	**1.1%**	1.0%	1.1%	1.2%	1.1%
Allowance for loan losses as a % of gross impaired loans (coverage ratio), excluding LDCs	**93%**	112%	112%	103%	94%

(1) As a result of a change in methodology in 1999, the allowance for loan losses in 2001, 2000 and 1999 includes amounts for the general allocated allowance, which have been allocated to loan categories. These amounts total $1,076 million (2000 – $765 million; 1999 – $790 million) and have been allocated as follows: for Canada – residential mortgage $21 million (2000 – $18 million; 1999 – $11 million), personal $266 million (2000 – $207 million; 1999 – $174 million), credit card $147 million (2000 – $88 million; 1999 – $60 million), business and government $385 million (2000 – $321 million; 1999 – $370 million), and for International – residential mortgage $2 million (2000 and 1999 – nil), personal $26 million (2000 and 1999 – nil), credit card $5 million (2000 and 1999 – nil), business and government $224 million (2000 – $131 million; 1999 – $175 million). The amounts prior to 1999 do not include the general allocated allowance.

(2) The general allocated and unallocated allowance totalled $850 million in 1998 and $750 million in 1997. These were not separated into allocated and unallocated components prior to October 31, 1999.

(3) Commencing in 2000, the allowance for off-balance sheet and other items was separated and reported under other liabilities. Previously, the amount was included in the general allocated allowance for loan losses.

(4) Includes the allowance for off-balance sheet and other items.

TABLE 19 Loans and acceptances (1)

($ millions, except percentage amounts)	2001	2000	1999	1998	1997	2001	1997
Canada							
Atlantic provinces	$ 9,654	$ 9,690	$ 8,840	$ 8,052	$ 7,714	4.4%	4.6%
Quebec	13,863	16,191	14,936	14,066	14,758	6.4	8.8
Ontario	92,966	73,124	67,120	64,566	65,538	42.8	38.9
Prairie provinces	25,192	29,402	25,521	23,288	22,150	11.6	13.1
British Columbia	22,696	25,118	23,141	22,295	21,646	10.5	12.8
Total Canada	164,371	153,525	139,558	132,267	131,806	75.7	78.2
International							
United States	29,879	15,939	17,247	17,728	12,968	13.7	7.7
Europe, Middle East and Africa	16,860	9,782	9,642	16,822	13,341	7.8	7.9
Caribbean	1,856	2,059	1,502	1,573	1,274	.9	.7
Latin America	1,680	1,842	2,309	3,875	3,493	.8	2.1
Asia	1,328	1,781	2,417	4,550	5,372	.6	3.2
Australia and New Zealand	1,207	1,218	1,693	1,085	343	.5	.2
Total international	52,810	32,621	34,810	45,633	36,791	24.3	21.8
Total loans and acceptances	217,181	186,146	174,368	177,900	168,597	100.0%	100.0%
Allowance for loan losses	(2,278)	(1,871)	(1,884)	(2,026)	(1,769)		
Total	$ 214,903	$ 184,275	$ 172,484	$ 175,874	$ 166,828		
Canada							
Consumer							
Residential mortgage	$ 64,066	$ 61,444	$ 58,524	$ 56,437	$ 52,835	29.5%	31.3%
Personal	27,202	27,207	24,353	21,814	20,214	12.5	12.0
Credit card	4,110	4,666	2,666	1,945	2,324	1.9	1.4
	95,378	93,317	85,543	80,196	75,373	43.9	44.7
Business and government loans and acceptances							
Small business (2)	9,788	11,701	10,334	8,452	7,325	4.5	4.3
Agriculture	4,758	4,931	4,217	3,851	3,479	2.2	2.1
Energy	4,293	3,754	3,350	3,442	3,845	2.0	2.3
Financial services	3,010	2,218	1,567	1,718	1,976	1.4	1.2
Commercial mortgages	2,635	2,961	2,635	2,434	2,392	1.2	1.4
Consumer goods	2,447	2,874	2,086	2,802	2,787	1.1	1.7
Commercial real estate	2,325	2,594	2,400	2,523	2,872	1.1	1.6
Industrial products	2,174	2,470	2,301	2,241	2,137	1.0	1.3
Transportation and environmental	2,138	1,519	1,562	1,392	1,481	1.0	.9
Government	1,597	1,385	2,105	1,951	1,575	.7	.9
Media and cable (3)	1,510	1,120	1,135	959	–	.7	–
Forest products	1,275	1,362	1,151	1,728	1,976	.6	1.2
Automotive	864	673	611	698	787	.4	.5
Telecommunication	677	1,008	525	361	–	.3	–
Information technology	203	210	191	204	1,340	.1	.8
Other	6,439	7,334	5,495	5,327	5,640	3.0	3.3
	46,133	48,114	41,665	40,083	39,612	21.3	23.5
Reverse repurchase agreements	22,860	12,094	12,350	11,988	16,821	10.5	10.0
Total Canada	164,371	153,525	139,558	132,267	131,806	75.7	78.2
International							
Consumer							
Residential mortgage	3,376	1,540	718	632	534	1.6	.3
Personal	5,309	812	902	947	650	2.4	.4
Credit card	173	–	–	–	–	.1	–
	8,858	2,352	1,620	1,579	1,184	4.1	.7
Business and government loans and acceptances							
Energy	2,994	3,051	3,887	4,702	3,877	1.4	2.3
Financial services	9,347	7,912	6,937	10,896	11,359	4.3	6.7
Consumer goods	1,699	1,111	1,411	2,756	2,365	.8	1.4
Commercial real estate	4,082	271	464	862	926	1.8	.5
Industrial products	2,116	1,749	1,325	1,881	2,589	1.0	1.5
Transportation and environmental	1,571	1,487	1,975	2,296	1,762	.7	1.0
Government	128	167	773	492	622	.1	.4
Media and cable (3)	1,380	2,033	1,909	2,270	–	.6	–
Forest products	385	468	549	609	609	.2	.4
Automotive	527	513	878	2,264	1,771	.2	1.1
Telecommunication	1,558	2,244	1,206	1,756	–	.7	–
Information technology	396	433	709	1,212	4,722	.2	2.8
Other	4,759	2,621	3,245	4,139	3,184	2.2	1.9
	30,942	24,060	25,268	36,135	33,786	14.2	20.0
Reverse repurchase agreements	13,010	6,209	7,922	7,919	1,821	6.0	1.1
Total international	52,810	32,621	34,810	45,633	36,791	24.3	21.8
Total loans and acceptances	217,181	186,146	174,368	177,900	168,597	100.0%	100.0%
Allowance for loan losses	(2,278)	(1,871)	(1,884)	(2,026)	(1,769)		
Total	$ 214,903	$ 184,275	$ 172,484	$ 175,874	$ 166,828		

(1) Based on residence of borrower.

(2) Small business loans in 2001 comprises the following industries: commercial real estate of $1,788 million; consumer goods of $1,665 million; industrial products of $916 million; transportation and environmental of $605 million; automotive of $434 million; forest products of $296 million; energy of $157 million; information technology of $133 million; financial services of $96 million; media and cable of $84 million; telecommunication of $45 million; and other of $3,569 million.

(3) Includes cable loans of $330 million in Canada in 2001 (2000 – $262 million; 1999 – $169 million; 1998 – $164 million; 1997 – nil) and $625 million internationally in 2001 (2000 – $1,321 million; 1999 – $850 million; 1998 – $1,221 million; 1997 – nil).

TABLE 20 U.S. loan and loan quality information (1)

	Loan balance		Gross impaired loans		Net impaired loans		Provision for credit losses	
($ millions)	2001	2000	2001	2000	2001	2000	2001	2000
Consumer								
Residential mortgage	$ 2,664	$ 845	$ 24	$ –	$ 22	$ –	$ 8	$ –
Personal	4,621	78	15	–	8	–	5	–
Credit card	128	–	–	–	–	–	2	–
	7,413	923	39	–	30	–	15	–
Business and government loans and acceptances								
Energy	1,613	1,582	–	–	–	–	–	–
Financial services	4,104	4,521	30	–	23	–	7	–
Consumer goods	1,172	435	9	–	7	–	2	–
Commercial real estate	3,773	44	81	4	49	1	66	2
Industrial products	1,513	1,107	8	68	(1)	34	3	40
Transportation and environmental	788	469	48	56	26	25	(4)	42
Government	23	–	–	–	–	–	–	–
Media and cable (2)	1,038	1,782	–	–	–	–	3	–
Forest products	98	181	–	–	–	–	–	–
Automotive	408	221	33	–	25	–	6	–
Telecommunication	835	1,131	272	–	122	–	272	–
Information technology	299	374	76	–	70	–	7	–
Other	3,134	645	30	17	24	9	–	15
	18,798	12,492	587	145	345	69	362	99
Reverse repurchase agreements	3,668	2,524	–	–	–	–	–	–
	$ 29,879	$ 15,939	$ 626	$ 145	$ 375	$ 69	$ 377	$ 99

(1) Based on residence of borrower.
(2) Includes cable loans of $455 million (2000 – $1,162 million).

TABLE 21 Foreign outstandings (1)

	2001		2000		1999	
($ millions, except percentage amounts)		% of total assets		% of total assets		% of total assets
United States – Banks	$ 7,186		$ 5,462		$ 4,208	
Government	3,834		889		486	
Other	49,172		30,034		23,865	
	60,192	16.75%	36,385	12.56%	28,559	10.55%
Western Europe						
United Kingdom – Banks	6,275		4,347		4,960	
Government	153		26		79	
Other	5,256		5,791		4,308	
	11,684	3.25	10,164	3.51	9,347	3.45
France – Banks	2,378		2,379		2,082	
Government	68		45		57	
Other	1,176		1,552		784	
	3,622	1.01	3,976	1.37	2,923	1.08
Germany – Banks	5,952		5,471		5,608	
Government	173		1		291	
Other	559		643		268	
	6,684	1.86	6,115	2.11	6,167	2.28
Netherlands	2,218	.62	1,300	.45	2,060	.76
Switzerland	1,362	.38	1,687	.58	2,044	.76
Other	5,244	1.46	4,305	1.49	4,309	1.59
	30,814	8.58	27,547	9.51	26,850	9.92
Central/Eastern Europe, Middle East and Africa	469	.13	645	.22	769	.28
Latin America						
Argentina	193	.06	324	.11	437	.16
Brazil	71	.02	75	.02	160	.06
Chile	836	.23	751	.26	640	.24
Mexico	696	.19	343	.12	665	.24
Other	174	.05	212	.08	272	.10
	1,970	.55	1,705	.59	2,174	.80
Caribbean						
Bahamas	1,520	.42	1,549	.54	1,674	.62
Other	1,902	.53	1,952	.67	1,236	.46
	3,422	.95	3,501	1.21	2,910	1.08
Asia						
Japan – Banks	53		634		390	
Government	1,663		1,599		625	
Other	988		1,000		1,256	
	2,704	.75	3,233	1.12	2,271	.84
Singapore	217	.06	336	.11	411	.15
South Korea	449	.13	338	.11	462	.17
Other	145	.04	188	.07	755	.29
	3,515	.98	4,095	1.41	3,899	1.45
Australia and New Zealand	2,335	.65	1,775	.61	2,444	.90
Allowance for loan losses (2)	(728)	(.20)	(441)	(.15)	(389)	(.14)
Total	$ 101,989	28.39%	$ 75,212	25.96%	$ 67,216	24.84%

(1) Includes the following assets with clients in a foreign country: loans, accrued interest, acceptances, interest-bearing deposits with other banks, securities, other interest-earning investments and other monetary assets including net revaluation gains on foreign exchange and derivative products. Local currency outstandings, whether or not hedged or funded by local currency borrowings, are included in country exposure outstandings. Foreign outstandings are reported based on location of ultimate risk.
(2) The allowance for loan losses includes the country risk allowance and the international component of the specific, and the general allowance.

Risk management

Overview

The bank manages risk strategically with a view to building shareholder value. The cornerstone of effective risk management in the bank is a strong risk management culture, which is supported by numerous strategy and policy development processes, run jointly by risk management professionals and the businesses. This partnership approach is designed to ensure strategic alignment of business, risk and resource issues.

Although the partnership approach is important, independence of the Group Risk Management function is essential. The Vice-Chairman & Chief Risk Officer, who reports directly to the President & Chief Executive Officer, heads up a global function that has been structured to reflect the evolving needs and strategic initiatives of the organization. A structure of management and board committees provides oversight of the risk management process. In 2001, the role of the Chief Compliance Officer was elevated, and the Ethics and Compliance Committee added to the risk committee structure:

Audit Committee of the Board of Directors
- Oversees financial reporting process
- Reviews internal control and audit procedures

Conduct Review and Risk Policy Committee of the Board of Directors
- Oversees policies and procedures for compliance with the self-dealing provisions of the *Bank Act* and the risk management process
- Reviews trends in risk profile
- Reviews major risk policies and counterparty, country and sectoral exposures

Group Risk Committee
- Provides strategic guidance
- Reviews overall risk policies and strategies
- Chaired by President & Chief Executive Officer

Ethics and Compliance Committee
- Provides oversight of policies and management systems to ensure adherence to the group's Guiding Principles and Code of Conduct
- Focal point for establishing ethics and compliance policies
- Chaired by Vice-Chairman & Chief Risk Officer

Risk Management Committee
- Approves policies, processes and systems for management of risk across the group
- Approves major country and sectoral risk strategies
- Reviews effect of changing conditions on business activities or risk profile
- Monitors portfolio quality
- Chaired by Vice-Chairman & Chief Risk Officer

Asset/Liability Committee
- Oversees market risk in non-trading operations, liquidity risk and capital management
- Assesses balance sheet strategies to maximize shareholder value
- Chaired by Vice-Chairman & Chief Financial Officer

Interest Rate Risk Committee
- Oversees interest rate risk management for non-trading operations

The Risk Pyramid is the primary tool to assess risk across the bank. The Risk Pyramid gives the organization a common language for evaluating risk in business reviews, new businesses, new products, new initiatives, acquisitions or alliances. The Risk Pyramid is also used to provide an organizational perspective on the roles and responsibilities of the Board of Directors and management in ensuring an effective risk management process throughout the bank. The Risk Pyramid was initially developed as a communication tool and continues to serve in that capacity as well.

Group Risk Management professionals work in partnership with the business and functional units to identify risk, which is then measured, monitored and managed. In line with a group-wide portfolio management approach, portfolio analytical techniques are employed in an effort to optimize the risk/reward profile and ensure efficient allocation of capital within the bank.

Risk Pyramid

The Risk Pyramid: An organizational perspective

Credit risk

Traditionally, credit risk is considered to be the risk of loss due to the inability or unwillingness of a counterparty to fulfill its payment obligations. However, the distinction from market risk is not clear-cut, since credit risk can also result from loss in market value due to deterioration in the financial position of a counterparty. A disciplined approach to credit risk management preserves the independence and integrity of risk assessment while being integrated into business management processes. Policies and procedures, which are communicated throughout the organization, guide the day-to-day management of credit risk exposure and are an essential part of the bank's business culture.

Subject to the overriding principle of portfolio diversification, the bank focuses on:

- Strategic and profitable client relationships, existing as well as prospective
- Industries where Canadian companies enjoy a particular competitive advantage or where the bank has developed special expertise
- Volume-based sectors that generate an attractive return for the risk (small business, public sector and agriculture)

In Canada, the bank provides a full range of services to clients across all industries. Internationally, it focuses on sectors where it has developed particular expertise (mining, energy, telecommunication & media and financial services). Increasing emphasis is placed on the risk-return balance of individual transactions as well as their impact on portfolio diversification, and particular attention is being given to the appropriate balance between "new economy" and "old economy" sectors. As the economy started to slow down in early summer, particular attention was paid to proactively evaluating the credit risk of cyclical sectors such as consumer goods, retail and automotive manufacturing. Also, the forest products sector continued to be closely managed. This loan portfolio has decreased by $170 million or 9% during 2001 to $1.7 billion, and is down from $2.6 billion as at October 31, 1997.

At October 31, 2001, loans to the telecommunication and cable sector were $3.2 billion ($4.8 billion at October 31, 2000), of which 47% was investment grade. Telecommunication loans alone were $2.2 billion, of which 41% was investment grade.

At October 31, 2001, loans to the transportation and environmental sectors were $3.7 billion ($3.0 billion at October 31, 2000), of which 62% was investment grade. During 2001, the airline industry in particular suffered from a cyclical slowdown and the impact of the September 11 terrorist attacks in the United States. Loans to airlines at October 31, 2001, were $.9 billion, of which 67% were investment grade.

The acquisition of RBC Centura has added to the bank's real estate portfolio, but the geographic separation of RBC Centura's book from the bank's traditional Canadian markets is seen as a mitigating factor. This diversification notwithstanding, the bank plans to reduce its overall $6.4 billion of outstanding loans relating to real estate at fiscal year-end by approximately $1 billion over the next two years.

The bank has stayed the course on reducing exposure to emerging markets. Credit risk in Asia, Central & Eastern Europe, the Middle East and Africa declined further, although the pace of this reduction is now slowing down. Remaining exposure in these markets is largely to subsidiaries of foreign multinationals and banks or in support of companies with significant North American operations that offer the prospect of fee-generating business in their home markets. This is especially true for Latin America where the large majority of the exposure is to the private sector and is mostly linked to the financing of specific projects, with direct government exposure being insignificant.

Portfolio composition by product continues to shift away from traditional lending, particularly in global banking relationships. Emphasis is placed on trading activities such as foreign exchange, swaps, options, equity derivatives and fixed income products. Specialized teams in Toronto, New York, London and Sydney handle these transactions. Resident independent middle offices ensure that risk guidelines are adhered to. New products or structures must be approved by Group Risk Management in Toronto following risk analysis and stress testing. Exposure control of trading products has two levels. First, individual credit lines must be approved for every counterparty. Second, overall usage of approved lines is capped by product group, counterparty location or industry. Such limits are particularly important in the financial industry, as banks account for approximately 35% and non-bank financial institutions for a further 15% of all the bank's commercial credit authorizations.

Personal & Commercial Banking

Specialization of Risk Management across all businesses within Personal & Commercial Banking continues to be a key goal for 2002. For the consumer and small business markets, a joint effort between Risk Management and Personal & Commercial Banking is underway to enhance our credit scoring strategy and tactical capability in the areas of origination, account review and collections. Benefits of this project are expected to be realized commencing in 2002. In addition, Risk Management, in conjunction with Commercial Markets, continues to develop industry expertise and enhanced portfolio management capabilities. In the mid-market, the implementation of Moody's Financial Advisor (a software program developed by Moody's Risk Management Services, utilized in financial analysis of client financial information required for the credit adjudication process for commercial and business clients) in 2002 will assist account managers in credit analysis and understanding the financial needs of their clients' businesses.

Risk Management is continuously improving management information systems in order to enhance portfolio management capabilities and improve credit processes.

Corporate & Investment Banking

The bank uses a strategic approach for managing the risk of the large corporate client base. This approach integrates comprehensive portfolio management techniques with forward-looking strategic limits for industry sectors and sub-sectors, countries and clients based on risk analysis, business opportunities and the bank's risk appetite. The asset portfolio is continuously managed through both periodic and event-related formal reviews of the risk and reward profile of the existing client base and potential new opportunities, and a comprehensive portfolio modelling process, which rebalances the bank's exposure in global industry sectors and countries. During the year, the frequency and the depth of analysis was enhanced for risk rating our borrowers and counterparties.

Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed processes, technology or human performance, or from external events. Its impact can be financial loss, loss to reputation, loss of competitive position or regulatory censure.

While operational risk can never be fully eliminated, the bank endeavours to minimize it by ensuring that the appropriate infrastructure, controls, systems, and trained and competent people are in place throughout the bank. Dedicated professionals are in place to identify and implement what management believes to be best industry practices in the area of operational risk management.

The bank has been proactive in developing and implementing new methodologies for the identification, assessment and management of operational risk. A number of in-depth operational risk self-assessments were conducted in all segments during 2001, resulting in action taken by the businesses to manage their risks more proactively. Operational risk capital has been allocated to all major business units, based on an assessment of each unit's risk exposure.

The focus in 2002 will be on an enterprise-wide rollout of operational risk self-assessment tools and processes, further development of operational risk quantification methodologies, and staying at the forefront of best risk management practices.

eBusiness risk

eBusiness brings together different cultures, industry practices, processes, talents and complex value chains. As eBusiness continues to innovate, re-invent and consolidate, the bank is keeping a watchful eye on new developments and the pace of change. Among our priorities is the communication of eBusiness risk management best practices and making risk management and due diligence tools available throughout the bank.

Security, privacy and the management of technology are the risks most commonly cited as eBusiness risks and the trends in these areas are closely monitored and managed within the bank. Some unique and potentially high risks on which we focus include strategic/business planning, business continuity, change management, recruitment and retention of specialized human resource skills and competencies, and knowledge management. By establishing a centre of expertise in eBusiness risk, the bank has positioned itself as a leader and model of eBusiness risk management.

Market risk

Market risk is the risk of loss that results from changes in interest rates, foreign exchange rates, equity prices and commodity prices.

Interest rate risk

Interest rate risk is the potential adverse impact on the bank's earnings and economic value due to changes in interest rates. The key sources of interest rate risk to which the bank is exposed are repricing mismatch risk, credit spread risk, basis risk and options risk. Repricing mismatch risk arises when there are mismatches or gaps in the amount of assets, liabilities and off-balance sheet instruments that mature or reprice in a given period, primarily due to clients' differing term preferences. Credit spread risk arises when there are changes in the credit spread that result from changes in the market's perception of general or specific credit quality and liquidity. Basis risk arises when the differentials between various indices upon which the bank prices its products change. Options risk arises from the effect of interest rate movements and changes in volatilities on the market value of the options within the bank's portfolios.

Foreign exchange rate risk

Foreign exchange rate risk is the potential adverse impact on the bank's earnings and economic value due to currency rate movements. The bank is exposed to foreign exchange rate risk in both the spot and forward foreign exchange markets and in the options market. Spot foreign exchange risk arises when the total present value of assets in any currency does not equal the total present value of liabilities in that currency. Forward foreign exchange risk arises when, for a given currency, the maturity profile of forward purchases differs from the maturity profile of forward sales. Options risk arises from the effect of interest rate and exchange rate movements and changes in volatilities on the market value of the options within the bank's portfolios.

Equity risk

Equity risk is the potential adverse impact on the bank's earnings due to movements in individual equity prices or general movements in the value of the stock market. The bank is exposed to equity risk from the buying and selling of equities as a principal in its brokerage business. Equity risk also results from the bank's trading activities, including the provision of tailored equity derivative transactions to clients, arbitrage trading and proprietary trading.

Commodity risk

Commodity risk is the potential adverse impact on the bank's earnings and economic value due to movements in commodity prices. Commodity risk arises primarily in the bank's trading portfolio through exposure to movements in the price of precious metals. However, there is minimal exposure to commodity risk in the bank's trading portfolio because the bank does not normally hold unhedged positions in the portfolio.

The level of market risk to which the bank is exposed varies continually, reflecting changing market conditions, expectations of future price and market movements and the composition of the bank's trading and non-trading portfolios. The bank has established risk management policies and limits for its trading and asset/liability management activities that allow it to monitor and control the exposure to market risk resulting from these activities.

Trading activities

The market risk associated with trading activities is a result of market-making, positioning and sales and arbitrage activities in the interest rate, foreign exchange, equity and commodity markets. The bank's trading operation has a primary role of acting as a market-maker or jobber, executing transactions that meet the financial requirements of its clients, and transferring the market risks to the broad financial market. The bank also acts as principal and takes market risk proprietary positions within the authorizations granted by the bank's board. This risk is managed primarily through a Value-At-Risk (VAR) methodology.

VAR is a generally accepted risk measurement concept that uses statistical models and historical market price information to estimate within a given level of confidence the maximum loss in market value that the bank would experience in its trading portfolios from an adverse one-day movement in market rates and prices. The bank's VAR measure is based on a 99% confidence level and is an estimate of the maximum potential trading loss in 99 out of every 100 days. The bank uses an historical simulation of the previous 500 trading day scenarios to determine VAR for its trading portfolio. The graph on page 53A shows the daily net trading revenue compared to the global trading VAR amounts for the year ended October 31, 2001. Net trading revenue is defined as the sum of the mark-to-market adjustments booked on trading positions and net interest income accrued from trading assets. During fiscal 2001, the bank experienced only two days of trading losses, and it did not experience a single day with trading losses in excess of the VAR estimate for that day.

TABLE 22 Market risk measures – Trading activities (1)

($ millions)	2001 Year-end	2001 High	2001 Average	2001 Low	2000 Year-end	2000 High	2000 Average	2000 Low
Global VAR by major risk category								
Equity	$ 8	$ 16	$ 10	$ 6	$ 14	$ 22	$ 13	$ 6
Foreign exchange and commodity	2	6	3	1	4	11	5	2
Interest rate	3	9	4	2	7	9	5	3
Global VAR (2)	$ 8	$ 18	$ 11	$ 6	$ 18	$ 24	$ 16	$ 10

(1) Amounts are presented on a pre-tax basis and represent one-day VAR at a 99% confidence level.
(2) Global VAR reflects the correlation effect from each of the risk categories through diversification.

During the year, the bank expanded the scope of its interest rate products to include credit derivatives. Credit derivatives allow trading of credit risk separate from an underlying instrument. For example, credit exposure to a company can be acquired or divested through a credit derivative without actually owning a loan or bond issued by the company. Credit derivatives are one of the fastest growing over-the-counter trading products. Credit derivatives are provided to institutional and corporate clients and are also used by the bank in the management of its loan portfolio.

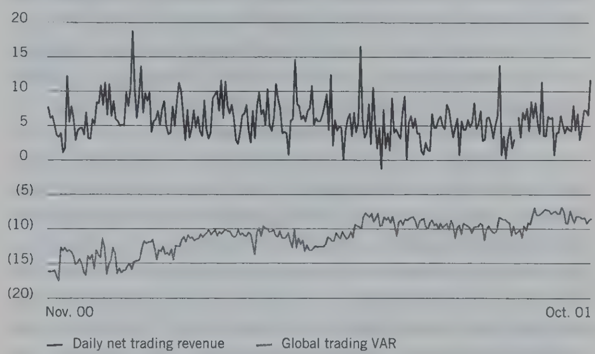
Table 22 above shows the year-end, high, average and low VAR by major risk category for the bank's combined trading activities for the years ended October 31, 2001 and 2000. The table also shows the bank's global VAR, which incorporates the effects of correlation in the movements of interest rates, exchange rates, equity prices and commodity prices and the resulting benefits of diversification within the bank's trading portfolio. As the table illustrates, the bank's average VAR in 2001 declined to $11 million from an average of $16 million in 2000, reflecting a reduction in risk mainly in the equity trading portfolio.

The bank also performs analysis on the potential trading losses due to stress events as a supplementary control on its market risk exposure. This is accomplished through applying historical and internally developed scenarios to the daily trading positions to monitor the effect of extreme market movements on the value of its portfolio.

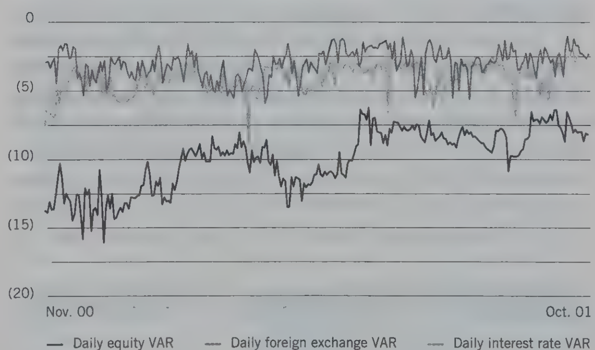
The Group Risk Management function, which is independent of the trading operations, is responsible for the daily monitoring of global trading risk exposures. The function uses the bank's VAR methodology to compare actual exposures to the limits established, to assess global risk-return trends and to alert senior management of adverse trends or positions. The function also develops and implements comprehensive risk measurement policies and risk limits that apply to trading activities.

Management recognizes that VAR is not an absolute measure of market risk and has its limitations since it is based on historical information only. In such circumstances, management implements other limits in order to control market liquidity risks, net position gap, term and volume for all products. This comprehensive market risk management framework is designed to ensure that an appropriate diversification of risks through policies is adopted on a global basis.

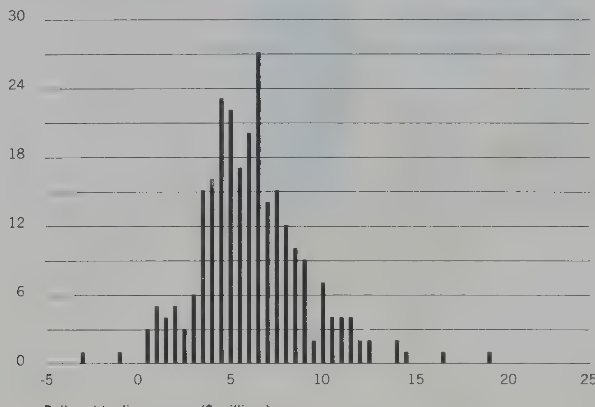
DAILY NET TRADING REVENUE VS GLOBAL TRADING VAR
($ millions)



GLOBAL VAR BY MAJOR RISK CATEGORY
($ millions)



HISTOGRAM OF DAILY NET TRADING REVENUE
(number of days)



Asset/liability management activities of the bank's non-trading portfolio

Core banking activities, such as deposit taking and lending, expose the bank to market risk, mostly in the form of interest rate risk. The risk is managed within the economic value of equity risk and net interest income risk limits approved by the Conduct Review & Risk Policy Committee of the Board of Directors. The risk limits are based on an immediate and sustained 200 basis point parallel movement in rates across all maturities. Economic value risk measures the adverse net impact on the present value of assets and liabilities and off-balance sheet financial instruments. The limit for economic value of equity risk is $1.5 billion, which corresponds to about 10% of the bank's common equity. This represents a limit increase of $400 million relative to the prior year and is attributable to net common stock issuance of $3.4 billion. Net interest income risk measures the adverse impact on net interest income over the next 12 months. The net interest income risk limit is $300 million.

The Corporate Treasury function actively monitors and manages the Canadian domestic and U.S. non-trading books. It also oversees a limited number of authorized units that manage their interest rate exposure at a decentralized level within established risk limits.

In managing the Canadian domestic and U.S. non-trading books, the goal is to achieve a balance between reducing risk from adverse movements in interest rates and enhancing net interest income. To achieve this, derivative instruments, primarily interest rate swaps, are used to adjust the risk profile of the book taking into account the shape of the yield curve, expected changes in the level of interest rates and the current level of risk being carried. When appropriate, the bank will also purchase options to hedge some of the embedded options inherent in certain deposit and loan banking products. Embedded options allow bank clients to alter the maturity profile of their deposit or loan products. The most prevalent types of embedded options are early redemption features in certain term deposit products and prepayment options in some loan products.

The primary analytical techniques used by the bank to measure the economic value of equity risk and net interest income risk and to manage non-trading interest rate risk are scenario analysis and starting position analysis. Scenario analysis is forward looking, and enables the bank to forecast net interest income and analyze the impact under numerous economic and interest rate scenarios. It incorporates assumptions about pricing strategies, volume and mix of new business, expected changes in the level of interest rates, changes in the shape of the yield curve and other factors such as the impact of embedded options. Starting position analysis provides the framework for measuring economic value and net interest income risk exposures against limits at a point in time. The results of the scenario and starting position analysis assist in determining the risk-return tradeoffs of potential hedging and optimization strategies. This allows the bank to achieve a balance between enhancing net interest income and reducing the risk of lower earnings from adverse movements in interest rates.

Table 23 below presents the potential impact of a 100 and 200 basis point increase and decrease on the bank's economic value and on current earnings from changes in interest rates on the non-trading portfolio of the bank. These measures are based on its interest rate sensitivity position at October 31, 2001, including all repricing assumptions. These measures assume that no further hedging is undertaken and that all assets and liabilities reprice by the defined amounts. The bank has defined a risk neutral balance sheet as one where net residual assets representing equity are evenly invested over a five-year horizon. As a result of this decision, the bank's interest rate risk profile is one that is slightly asset sensitive while maintaining a duration of equity at about 2.5 years. This is characteristic of a bank operating in an interest rate "safety zone" for which economic value and net interest income risk measures move in opposite directions for the same parallel shift of the yield curve. In the safety zone, net interest income declines and economic value increases for a decline in interest rates and the opposite is true for an increase in interest rates.

The interest rate sensitivity position at October 31, 2001, including all repricing assumptions, reflects a view on future interest rate movements relative to the current yield curve. The risk position has been and is currently being actively managed to reflect the historically low interest rates since mid-September. The bank's view is that although short-term interest rates may decline further, medium- and long-term rates will remain within the current range until there is evidence of economic recovery. While some near-term volatility is possible, the bank is positioning itself for a fairly stable interest rate environment until early calendar 2002.

All interest rate measures in this section are based upon the bank's interest rate exposures at a specific time. The exposures change continually as a result of the bank's day-to-day business activities and its risk management initiatives.

TABLE 23 **Market risk measures – Non-trading activities**

	2001		2000	
($ millions)	Economic value of equity risk (1)	Net interest income risk (1)	Economic value of equity risk (1)	Net interest income risk (1)
100bp increase	$ (390)	$ 96	$ (306)	$ 71
100bp decrease	256	(108)	241	(84)
200bp increase	$ (842)	$ 179	$ (628)	$ 129
200bp decrease	466	(294)	473	(170)

(1) Amounts are presented on a pre-tax basis as at October 31.

Liquidity risk

The objective of liquidity management is to ensure that the bank has the ability to generate sufficient cash or its equivalents, in a timely and cost-effective manner, to meet its commitments as they fall due. Liquidity management is critical in protecting the bank's capital, maintaining market confidence and ensuring that the bank can expand into profitable business opportunities.

The bank's liquidity management framework includes policies for several key elements, such as minimum levels of liquid assets to be held at all times. The bank uses liquid assets and repurchase and reverse repurchase agreements when managing its short-term liquidity. Liquid assets and assets purchased under reverse repurchase agreements (before pledging, see next paragraph) totalled $136.3 billion or 38% of total assets at October 31, 2001, as compared to $97.5 billion or 34% of total assets at October 31, 2000. Canadian dollar liquid assets are primarily marketable securities, and much of the bank's foreign currency liquid assets are issued by highly rated foreign banks.

Policies are also in place to ensure that the bank is able to meet potential pledging requirements that may arise. At October 31, 2001, $9.5 billion of assets had been pledged as collateral, plus another $20.9 billion and $16.4 billion in obligations related to assets sold under repurchase agreements and securities sold short, respectively. For further details, see note 15 of the consolidated financial statements.

Another key element of the liquidity management framework is cash flow management. There are limits on the maximum net outflow of funds for specified time periods, particularly for key short-term time horizons. Scenario analysis is performed periodically on the assumed behaviour of cash flows under varying conditions to assess funding requirements and is updated as needed to reflect changing conditions.

The bank's framework also incorporates liquidity contingency planning to assess the nature and volatility of funding sources and to determine alternatives to these sources. The contingency plan would be activated to ensure that the bank's funding commitments could be met in the event of general market disruption or adverse economic conditions. The plan is reviewed, tested and updated at least annually.

Strong capital ratios, credit quality and core earnings are essential to retaining high credit ratings and consequently, cost-effective access to funding. These items, along with other indicators, are monitored on an ongoing basis as part of the liquidity management process.

Funding diversification is another key element of liquidity management. Diversification is achieved by strategically varying depositor type and country of origin, geographic locations and legal entities, term, funding market, and instrument. Core deposits, which are provided largely by consumers, and capital, are principal sources. For information on capital activity, see pages 39A to 42A. Other sources include money market funding, term funding and asset securitization.

As shown in Table 24 below, deposits from consumers were approximately 43% of total deposits, up $11.7 billion or 13% from October 31, 2000, including RBC Centura's addition of $8.2 billion. Business and government deposits as a percentage of total deposits remained at 46%. These were up $13.5 billion or 14% year-over-year, of which RBC Centura contributed $3.4 billion. Consumer deposits represent the prime source of Canadian dollar deposits, while foreign currency deposits are primarily from large corporations and foreign banks, including central banks.

During 2001, the bank continued to broaden its term funding base by issuing $2.1 billion of senior deposit notes in various currencies and markets. It also issued $1.0 billion of subordinated debentures, $750 million of innovative Tier 1 capital and $250 million of preferred shares, as outlined on page 40A. The securitization of credit card receivables funded by medium-term notes contributed $1.0 billion of funding during the year.

In October, the bank offered subordinated notes for US$400 million. This offering closed on November 8, 2001. Denominating the notes in U.S. dollars and issuing in Europe allowed the bank to better align the currency composition of its capital base with that of its asset base, and further diversified its investor base for this type of security.

The bank also diversified its funding by participating in the Canada Mortgage and Housing Corporation's newly developed Canada Mortgage Bond program. During the year, the bank securitized $800 million of government guaranteed residential mortgages and initially sold $723 million of those securities.

These alternative activities have strengthened the bank's domestic and foreign funding presence. Their future uses and those of new funding sources will continue to be assessed in light of their impact on traditional funding sources and relative benefits.

TABLE 24 **Deposits**

				2001	2000	1999
($ millions)	Demand	Notice	Term	**Total**	Total	Total
Personal	$ 10,835	$ 28,945	$ 61,601	**$ 101,381**	$ 89,632	$ 87,359
Business and government	28,754	12,122	66,265	**107,141**	93,618	86,223
Bank	2,070	411	22,444	**24,925**	19,646	14,315
	$ 41,659	$ 41,478	$ 150,310	**$ 233,447**	$ 202,896	$ 187,897
Non-interest-bearing						
Canada				**$ 20,501**	$ 19,431	$ 16,876
United States				**1,918**	151	–
Other international				**543**	712	666
Interest-bearing						
Canada				**118,161**	116,113	112,430
United States				**24,825**	10,847	9,451
Other international				**67,499**	55,642	48,474
				$ 233,447	$ 202,896	$ 187,897

2000 compared to 1999

The following discussion and analysis provides a comparison of the bank's results of operations for the years ended October 31, 2000 and 1999. This discussion should be read in conjunction with the consolidated financial statements and related notes on pages 57A to 85A. This portion of the management's discussion and analysis is based on amounts reported in the consolidated financial statements and does not exclude special items.

Business segment results

Personal & Commercial Banking's net income increased 31% to $1,129 million in 2000 from $865 million in 1999. Return on common equity increased 200 basis points to 20.7%. The efficiency ratio improved 550 basis points to 58.4% in 2000 due to a highly effective cost-reduction program.

Net income in Insurance was up 45% to $132 million in 2000. Return on common equity increased from 47.9% to 49.0%.

Wealth Management's net income was up 49% from 1999 to $416 million. Return on common equity declined by 1,140 basis points to 48.2% due to the higher allocation of capital for operational and other risks.

Corporate & Investment Banking's net income increased 65% in 2000 to $508 million. Return on common equity improved by 550 basis points to 21.1%.

Transaction Processing's net income was up 25% to $134 million. Return on common equity increased 450 basis points to 32.2%.

Net interest income

Net interest income increased 3% to $5.3 billion in 2000 from $5.1 billion in 1999 partially due to higher volumes of interest-bearing assets, particularly retail loans.

Other income

Other income increased 23% to $6.7 billion in 2000, accounting for 56% of gross revenues.

Non-interest expenses

Non-interest expenses increased 7% to $7.6 billion.

Taxes

The bank's income taxes for 2000 were $1.4 billion, for an effective income tax rate of 38.6%. Income taxes were $1.0 billion in 1999, while the effective income tax rate was 36.5%.

Provision for credit losses

The provision for credit losses decreased 9% to $691 million in 2000 from $760 million in 1999. The total allowance for loan losses was $1.9 billion or 1.0% of total loans (including acceptances) versus 1.1% in 1999.

Quarterly financial information

Selected financial information for the eight most recently completed quarters is shown on page 90A.

/ Consolidated financial statements

Management's responsibility for financial reporting

The accompanying consolidated financial statements of Royal Bank of Canada were prepared by management, which is responsible for the integrity and fairness of the information presented, including the many amounts that must of necessity be based on estimates and judgments. These consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada. Financial information appearing throughout this Annual Report is consistent with these consolidated financial statements. Management has also prepared consolidated financial statements for Royal Bank of Canada in accordance with United States generally accepted accounting principles, and these consolidated financial statements have also been provided to shareholders.

In discharging its responsibility for the integrity and fairness of the consolidated financial statements and for the accounting systems from which they are derived, management maintains the necessary system of internal controls designed to ensure that transactions are authorized, assets are safeguarded and proper records are maintained. These controls include quality standards in hiring and training of employees, policies and procedures manuals, a corporate code of conduct and accountability for performance within appropriate and well-defined areas of responsibility.

The system of internal controls is further supported by a compliance function, which ensures that the bank and its employees comply with securities legislation and conflict of interest rules, and by an internal audit staff, which conducts periodic audits of all aspects of the bank's operations.

The Board of Directors oversees management's responsibilities for financial reporting through an Audit Committee, which is composed entirely of directors who are neither officers nor employees of the bank. This Committee reviews the consolidated financial statements of the bank and recommends them to the board for approval. Other key responsibilities of the Audit Committee include reviewing the bank's existing internal control procedures and planned revisions to those procedures, and advising the directors on auditing matters and financial reporting issues. The bank's Compliance Officer and Chief Internal Auditor have full and unrestricted access to the Audit Committee.

At least once a year, the Superintendent of Financial Institutions Canada makes such examination and enquiry into the affairs of the bank as deemed necessary to ensure that the provisions of the *Bank Act*, having reference to the safety of the depositors and shareholders of the bank, are being duly observed and that the bank is in sound financial condition.

Deloitte & Touche LLP and PricewaterhouseCoopers LLP, independent auditors appointed by the shareholders of the bank upon the recommendation of the Audit Committee, have performed an independent audit of the consolidated financial statements and their report follows. The shareholders' auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings.

Gordon M. Nixon
President & Chief Executive Officer

Peter W. Currie
Vice-Chairman & Chief Financial Officer

Toronto, November 20, 2001

Auditors' report

To the shareholders of Royal Bank of Canada

We have audited the consolidated balance sheet of Royal Bank of Canada as at October 31, 2001 and 2000, and the consolidated statements of income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended October 31, 2001. These consolidated financial statements are the responsibility of the bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the bank as at October 31, 2001 and 2000, and the results of its operations and its cash flows for each of the years in the three-year period ended October 31, 2001, in accordance with Canadian generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada.

We also reported separately on November 20, 2001, to the shareholders of the bank on our audit, conducted in accordance with Canadian generally accepted auditing standards, where we expressed an opinion without reservation on the October 31, 2001 and 2000, consolidated financial statements, prepared in accordance with United States generally accepted accounting principles.

Deloitte & Touche LLP
PricewaterhouseCoopers LLP
Chartered Accountants

Toronto, November 20, 2001

Consolidated balance sheet

As at October 31 ($ millions)	2001	2000
Assets		
Cash resources		
Cash and deposits with banks	$ 1,792	$ 947
Interest-bearing deposits with other banks	15,743	15,461
	17,535	16,408
Securities		
Trading account (includes $3,649 pledged in 2001)	58,192	45,477
Investment account (includes $2,559 pledged in 2001)	21,877	14,266
Loan substitute	438	465
	80,507	60,208
Loans		
Residential mortgage	67,442	62,984
Personal	32,511	28,019
Credit card	4,283	4,666
Business and government	67,152	60,546
Assets purchased under reverse repurchase agreements	35,870	18,303
	207,258	174,518
Allowance for loan losses	(2,278)	(1,871)
	204,980	172,647
Other		
Derivative-related amounts	27,240	19,155
Customers' liability under acceptances	9,923	11,628
Premises and equipment	1,602	1,249
Goodwill	4,919	648
Other intangibles	619	208
Other assets	11,935	7,589
	56,238	40,477
	$ 359,260	$ 289,740
Liabilities and shareholders' equity		
Deposits		
Personal	$ 101,381	$ 89,632
Business and government	107,141	93,618
Bank	24,925	19,646
	233,447	202,896
Other		
Acceptances	9,923	11,628
Obligations related to securities sold short	16,443	13,419
Obligations related to assets sold under repurchase agreements	20,864	9,005
Derivative-related amounts	28,646	18,574
Other liabilities	23,979	14,149
	99,855	66,775
Subordinated debentures	6,314	5,825
Non-controlling interest in subsidiaries	1,479	703
Shareholders' equity		
Capital stock		
Preferred	2,024	2,037
Common (shares issued and outstanding – 674,020,927 and 602,397,936)	6,973	3,076
Retained earnings	9,168	8,428
	18,165	13,541
	$ 359,260	$ 289,740

Gordon M. Nixon
President & Chief Executive Officer

Robert B. Peterson
Director

Consolidated statement of income

For the year ended October 31 ($ millions)	2001	2000	1999
Interest income			
Loans	$ 13,195	$ 12,616	$ 11,287
Securities	3,281	2,669	2,190
Deposits with banks	831	824	726
	17,307	16,109	14,203
Interest expense			
Deposits	8,712	9,057	7,636
Other liabilities	1,673	1,429	1,161
Subordinated debentures	405	344	286
	10,790	10,830	9,083
Net interest income	6,517	5,279	5,120
Other income			
Capital market fees	1,870	1,810	1,209
Trading revenues	1,820	1,540	1,106
Investment management and custodial fees	895	684	547
Deposit and payment service charges	887	756	688
Mutual fund revenues	546	528	479
Card service revenues	458	420	362
Foreign exchange revenue, other than trading	312	299	243
Credit fees	237	212	189
Insurance revenues	201	191	161
Securitization revenues	123	115	222
Gain (loss) on sale of securities	(128)	(11)	28
Gain from divestitures	445	–	–
Other	549	188	246
	8,215	6,732	5,480
Gross revenues	14,732	12,011	10,600
Provision for credit losses	1,119	691	760
	13,613	11,320	9,840
Non-interest expenses			
Human resources	5,723	4,651	4,013
Occupancy	724	570	564
Equipment	771	665	677
Communications	686	695	699
Professional fees	412	267	298
Amortization of goodwill and other intangibles	284	87	66
Other	1,155	646	743
	9,755	7,581	7,060
Net income before income taxes	3,858	3,739	2,780
Income taxes	1,340	1,445	1,015
Net income before non-controlling interest	2,518	2,294	1,765
Non-controlling interest in net income of subsidiaries	107	20	8
Net income	$ 2,411	$ 2,274	$ 1,757
Preferred share dividends	135	134	157
Net income available to common shareholders	$ 2,276	$ 2,140	$ 1,600
Average number of common shares (in thousands)	641,516	606,389	626,158
Earnings per share (in dollars)	$ 3.55	$ 3.53	$ 2.55
Average number of diluted common shares (in thousands)	647,216	609,865	632,305
Diluted earnings per share (in dollars)	$ 3.52	$ 3.51	$ 2.53

Consolidated statement of changes in shareholders' equity

For the year ended October 31 ($ millions)	2001	2000	1999
Preferred shares			
Balance at beginning of year	**$ 2,037**	$ 2,009	$ 2,144
Issued	**250**	–	296
Redeemed for cancellation	**(300)**	–	(400)
Translation adjustment on shares denominated in foreign currency	**37**	28	(31)
Balance at end of year	**2,024**	2,037	2,009
Common shares			
Balance at beginning of year	**3,076**	3,065	2,925
Issued	**4,009**	109	192
Purchased for cancellation	**(112)**	(98)	(52)
Balance at end of year	**6,973**	3,076	3,065
Retained earnings			
Balance at beginning of year	**8,428**	7,541	6,823
Net income	**2,411**	2,274	1,757
Preferred share dividends	**(135)**	(134)	(157)
Common share dividends	**(897)**	(689)	(588)
Cumulative effect of initial adoption of *Employee Future Benefits* accounting standard, net of related income taxes	**(221)**	–	–
Premium paid on common shares purchased for cancellation	**(397)**	(562)	(281)
Issuance costs, net of related income taxes	**(19)**	(4)	(9)
Unrealized foreign currency translation gains and losses, net of hedging activities and related income taxes	**(2)**	2	(4)
Balance at end of year	**9,168**	8,428	7,541
Shareholders' equity at end of year	**$ 18,165**	$ 13,541	$ 12,615

Consolidated statement of cash flows

For the year ended October 31 ($ millions)	2001	2000	1999
Cash flows from operating activities			
Net income	$ 2,411	$ 2,274	$ 1,757
Adjustments to determine net cash provided by (used in) operating activities			
Provision for credit losses	1,119	691	760
Depreciation	389	370	389
Restructuring	91	–	153
Amortization of goodwill and other intangibles	284	87	66
Gain on sale of premises and equipment	(42)	(4)	(95)
Gain from divestitures	(445)	–	–
Change in accrued interest receivable and payable	(142)	78	(81)
Net loss (gain) on sale of investment securities	128	11	(28)
Changes in operating assets and liabilities			
Deferred income taxes	(165)	(193)	127
Current income taxes payable	(460)	(434)	487
Unrealized gains and amounts receivable on derivative contracts	(8,076)	(4,004)	15,262
Unrealized losses and amounts payable on derivative contracts	10,070	3,355	(14,151)
Trading account securities	(11,836)	(12,493)	(4,437)
Obligations related to securities sold short	2,869	(4,466)	3,481
Other	(3,398)	399	782
Net cash provided by (used in) operating activities	(7,203)	(14,329)	4,472
Cash flows from investing activities			
Change in loans	(1,130)	(11,713)	1,632
Proceeds from sale of investment securities	12,503	10,947	5,163
Proceeds from the maturity of investment securities	14,021	16,769	10,839
Purchases of investment securities	(27,578)	(24,953)	(20,921)
Decrease in loan substitute securities	27	70	224
Change in interest-bearing deposits with other banks	(135)	5,125	(6,596)
Net acquisitions of premises and equipment	(370)	(281)	(301)
Net proceeds from sale of real estate	57	–	815
Change in assets purchased under reverse repurchase agreements	(17,474)	1,969	(365)
Net cash used in acquisition of subsidiaries	(3,120)	(323)	(133)
Net proceeds on divestitures	478	–	–
Net cash used in investing activities	(22,721)	(2,390)	(9,643)
Cash flows from financing activities			
Issue of RBC Trust Capital Securities (RBC TruCS)	750	650	–
Increase in deposits	19,225	14,882	7,892
Issue of subordinated debentures	1,025	1,200	700
Subordinated debentures matured	(42)	(20)	(123)
Subordinated debentures redeemed	(538)	–	–
Issue of preferred shares	250	–	296
Preferred shares redeemed for cancellation	(300)	–	(400)
Issuance costs	(19)	(4)	(9)
Issue of common shares	657	59	17
Common shares redeemed for cancellation	(509)	(660)	(333)
Dividends paid	(972)	(791)	(735)
Change in securities sold under repurchase agreements	11,629	(391)	(1,868)
Change in liabilities of subsidiaries	(387)	281	(215)
Net cash provided by financing activities	30,769	15,206	5,222
Net change in cash and deposits with banks	845	(1,513)	51
Cash and deposits with banks at beginning of year	947	2,460	2,409
Cash and deposits with banks at end of year	$ 1,792	$ 947	$ 2,460
Supplemental disclosure of cash flow information			
Amount of interest paid in year	$ 11,149	$ 10,698	$ 8,989
Amount of income taxes paid in year	$ 1,443	$ 2,007	$ 542

NOTE 1 Significant accounting policies

Pursuant to the *Bank Act*, these consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP), including the accounting requirements of the Superintendent of Financial Institutions Canada. The bank has also prepared consolidated financial statements in accordance with United States GAAP and these have also been provided to shareholders. Note 20 of the consolidated financial statements describes and reconciles the differences between Canadian and United States GAAP.

GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Actual results could differ from those estimates.

Certain comparative amounts have been reclassified to conform with the current year's presentation.

The significant accounting policies followed in the preparation of these consolidated financial statements are summarized below:

Basis of consolidation

The consolidated financial statements include the assets and liabilities and results of operations of all subsidiaries after elimination of intercompany transactions and balances. The bank has accounted for the acquisition of subsidiaries using the purchase method. The equity method is used to account for investments in associated corporations in which the bank has significant influence. These investments are reported in Other assets. The bank's share of earnings, and gains and losses realized on dispositions of these investments are included in Other income. The proportionate consolidation method is used to account for investments in which the bank exercises joint control, whereby the bank's pro rata share of assets, liabilities, income and expenses are consolidated.

Translation of foreign currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing on the balance sheet date; income and expenses are translated at average rates of exchange for the year.

Unrealized foreign currency translation gains and losses (net of hedging activities and related income taxes) on investments in foreign branches, subsidiaries and associated corporations where the functional currency is other than the Canadian dollar are recorded in Retained earnings. On disposal of such investments, the accumulated net translation gain or loss is included in Other income. Other foreign currency translation gains and losses (net of hedging activities) are included in Other income.

Securities

Securities are classified at the time of purchase, based on management's intentions, as Trading account or Investment account.

Trading account securities, which are purchased for resale over a short period of time, are stated at estimated current market value. Obligations to deliver trading securities sold but not yet purchased are recorded as liabilities and carried at fair value. Realized and unrealized gains and losses on these securities are recorded in Trading revenues in Other income. Interest income accruing on Trading account securities is recorded in Interest income from securities. Interest expense accruing on interest-bearing securities sold short is recorded in Interest expense.

Investment account securities include securities that may be sold in response to or in anticipation of changes in interest rates and resulting prepayment risk, changes in funding sources or terms, or to meet liquidity needs. Investment account equity securities are stated at cost and investment account debt securities at amortized cost. Premiums and discounts on debt securities are amortized to Interest income from securities using the yield method over the period to maturity of the related securities. Gains and losses realized on disposal of securities, which are calculated on an average cost basis, and write-downs to reflect other than temporary impairment in value are included in Gain on sale of securities in Other income.

Loan substitute securities are client financings that have been structured as after-tax investments rather than conventional loans in order to provide the issuers with a borrowing rate advantage. Such securities are accorded the accounting treatment applicable to loans and, if required, are reduced by an allowance for credit losses.

Loans

Loans are stated net of an allowance for loan losses and unearned income, which comprises unearned interest and unamortized loan fees.

Loans are classified as impaired when there is no longer reasonable assurance of the timely collection of the full amount of principal or interest. Whenever a payment is 90 days past due, loans other than credit card balances and Canadian government guaranteed loans are classified as impaired unless they are fully secured or collection efforts are reasonably expected to result in repayment of debt. Credit card balances are written off when a payment is 180 days in arrears. Canadian government guaranteed loans are classified as impaired when the loan is contractually 365 days in arrears. When a loan is identified as impaired, the accrual of interest is discontinued and any previously accrued but unpaid interest on the loan is charged to the provision for credit losses. Interest received on impaired loans is credited to the allowance for loan losses on that loan. Impaired loans are returned to performing status when all amounts including interest have been collected, all charges for loan impairment have been reversed and the credit quality has improved such that there is reasonable assurance of timely collection of principal and interest.

When a loan has been identified as impaired, the carrying amount of the loan is reduced to its estimated realizable amount, measured by discounting the expected future cash flows at the effective interest rate inherent in the loan. In subsequent periods, recoveries of amounts previously written off and any increase in the carrying value of the loan is credited to the provision for credit losses on the consolidated income statement. Where a portion of a loan is written off and the remaining balance is restructured, the new loan is carried on an accrual basis when there is no longer any reasonable doubt regarding the collectibility of principal or interest, and payments are not 90 days past due.

Collateral is obtained if, based on an evaluation of the client's creditworthiness, it is considered necessary for the client's overall borrowing facility.

Assets acquired in respect of problem loans are recorded at the lower of their fair value or the carrying value of the loan at the date of transfer. Any excess of the carrying value of the loan over the fair value of the assets acquired is recognized by a charge to the provision for loan losses.

Fees that relate to such activities as originating, restructuring or renegotiating loans are deferred and recognized as Interest income over the expected term of such loans. Where there is reasonable expectation that a loan will result, commitment and standby fees are also recognized as Interest income over the expected term of the resulting loan. Otherwise, such fees are recorded as Other liabilities and amortized to Other income over the commitment or standby period.

Allowance for credit losses

The allowance for credit losses is maintained at a level that management considers adequate to absorb identified credit related losses in the portfolio as well as losses that have been incurred, but are not yet identifiable. The allowance relates primarily to loans but also to deposits with other banks, derivatives, loan substitute securities and other credit instruments such as acceptances, guarantees and letters of credit. The allowance is increased by the provision for credit losses, which is charged to income, and decreased by the amount of write-offs, net of recoveries.

The allowance is determined based on management's identification and evaluation of problem accounts; estimated probable losses that exist on the remaining portfolio; and on other factors including the composition and quality of the portfolio, and changes in economic conditions.

Specific

Specific allowances are maintained to absorb losses on both specifically identified borrowers and other more homogeneous loans that have become impaired. The losses relating to identified large business and government debtors are estimated based on the present value of expected payments on an account-by-account basis. The losses relating to other portfolio-type products, excluding credit cards, are based on net write-off experience over an economic cycle. For credit cards, no specific allowance is maintained as balances are written off if no payment has been received after 180 days. Personal loans are generally written off at 150 days past due. Write-offs for other loans are generally recorded when there is no realistic prospect of full recovery.

Country risk

Country risk allowances are maintained with respect to exposures to a number of less developed countries (LDCs) based on an overall assessment of the underlying economic conditions in those countries.

General allocated

The general allocated allowance represents the best estimate of probable losses within the portion of the portfolio that has not yet been specifically identified as impaired. This amount is established through the application of expected loss factors to outstanding and undrawn facilities. The general allocated allowance for large business and government loans and acceptances is based on the application of expected default and loss factors, determined by statistical loss migration analysis, delineated by loan type and rating. For more homogeneous portfolios, such as residential mortgages, small business loans, personal loans and credit cards, the determination of the general allocated allowance is done on a product portfolio basis. The losses are determined by the application of loss ratios determined through the analysis of loss migration and write-off trends over an economic cycle, adjusted to reflect changes in the product offerings and credit quality of the pool.

General unallocated

The general unallocated allowance is based on management's assessment of probable, unidentified losses in the portfolio that have not been captured in the determination of the specific, country risk or general allocated allowances. This assessment includes consideration of general economic and business conditions and regulatory requirements affecting key lending operations, recent loan loss experience, and trends in credit quality and concentrations. This allowance also reflects model and estimation risks and does not represent future losses or serve as a substitute for other allowances.

Assets purchased under reverse repurchase agreements and sold under repurchase agreements

The bank enters into short-term purchases of securities under agreements to resell (reverse repurchase agreements) and sales of securities under agreements to repurchase (repurchase agreements). These agreements are treated as collateralized lending and borrowing transactions and are carried on the consolidated balance sheet at the amounts at which the securities were initially acquired or sold. Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are included in Interest income and Interest expense, respectively.

Acceptances

Acceptances are short-term negotiable instruments issued by the bank's customers to third parties, which are guaranteed by the bank. The potential liability under acceptances is reported as a liability in the consolidated balance sheet. The recourse against the customer in the case of a call on these commitments is reported as a corresponding asset of the same amount under Other assets. Fees earned are reported in Other income.

Derivatives

Derivatives are used in sales and trading activities to provide clients with the ability to manage their market risk exposures. Derivatives are also used to manage the bank's own exposures to interest, currency and other market risks. The most frequently used derivative products are foreign exchange forward contracts, interest rate and currency swaps, foreign currency and interest rate futures, forward rate agreements, and foreign currency and interest rate options.

When used in sales and trading activities, the realized and unrealized gains and losses on derivatives are recognized in Other income. Market values are determined using pricing models that incorporate current market and contractual prices of the underlying instruments, time value of money, yield curve and volatility factors. A portion of the market value is deferred within Derivative-related amounts in Liabilities and amortized to income over the life of the instruments to cover credit risk and ongoing direct servicing costs. Unrealized gains and losses are generally reported on a gross basis as Derivative-related amounts in Assets and Liabilities, except where the bank has both the legal right and intent to settle these amounts simultaneously in which case they are presented on a net basis. Margin requirements and premiums paid are also included in Derivative-related amounts in Assets, while premiums received are shown in Derivative-related amounts in Liabilities.

When derivatives are used to manage the bank's own exposures, the income or expense is recognized over the life of the transaction as an adjustment to interest income or expense. Where derivatives have been designated and function effectively as hedges, realized gains and losses are deferred and amortized over the life of hedged assets or liabilities as adjustments to Interest income or Interest expense.

Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is recorded principally on the straight-line basis over the estimated useful lives of the assets, which are 25 to 50 years for buildings, 3 to 10 years for hardware, 3 to 5 years for software, 7 to 10 years for furniture, fixtures and other equipment, and lease term plus first option period for leasehold improvements. Gains and losses on disposal are recorded in Other income.

NOTE 1 Significant accounting policies (continued)

Goodwill and other intangibles

Goodwill represents the excess of the price paid for the acquisition of subsidiaries over the fair value of the net assets acquired and is amortized over appropriate periods of up to 20 years, except where a writedown is required to reflect permanent impairment. Identifiable, reliably measurable Other intangible assets, such as core deposit intangibles and client lists, resulting from acquisition of subsidiaries are also amortized over appropriate periods of up to 20 years. An impairment review on unamortized goodwill and other intangibles is performed periodically. Such evaluation is based on various analyses including undiscounted cash flow; market value is used if a sale or disposition is being considered.

Income taxes

The bank uses the asset and liability method whereby income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets or liabilities for book purposes compared with tax purposes. Accordingly, a deferred income tax asset or liability is determined for each temporary difference based on the tax rates that are expected to be in effect when the underlying items of income and expense are expected to be realized. Income taxes on the consolidated statement of income include the current and deferred portions of the expense. Income taxes applicable to items charged or credited to Retained earnings are netted with such items.

Deferred income taxes accumulated as a result of temporary differences are included in Other assets. A valuation allowance is established to reduce deferred income tax assets to the amount expected to be realized. In addition, the consolidated statement of income contains items that are non-taxable or non-deductible for income tax purposes and, accordingly, cause the income tax provision to be different than what it would be if based on statutory rates.

Pensions and other postretirement benefits

The bank adopted Canadian Institute of Chartered Accountants new standard on *Employee Future Benefits* on November 1, 2000, and recorded a cumulative after-tax charge to Retained earnings of $221 million. The bank provides a number of benefit plans which provide pension and other benefits to qualified employees. These plans include statutory pension plans, supplemental pension plans, defined contribution plans and health, dental and life insurance plans.

The bank funds its statutory pension plans and health, dental and life insurance plans annually based on actuarially determined amounts needed to satisfy employee benefit entitlements under current pension regulations. These pension plans provide benefits based on years of service, contributions and average earnings at retirement.

Actuarial valuations are performed on a regular basis to determine the present value of the accrued pension benefits, based on projections of employees' compensation levels to the time of retirement. Investments held by the pension funds primarily comprise equity securities, bonds and debentures. Market-related values are used to value pension fund assets.

Pension expense consists of the cost of employee pension benefits for the current year's service, interest expense on the liability, expected investment return on the market value of plan assets and the amortization of both deferred past service costs and deferred actuarial gains and losses. Amortization is charged over the expected average remaining service life of employee groups covered by the plan.

The cumulative excess of pension fund contributions over the amounts recorded as expenses is reported as a prepaid expense in Other assets. Other postretirement benefits are reported in Other liabilities.

Defined contribution plan costs are recognized in income for services rendered by employees during the period.

Assets under administration and assets under management

The bank administers and manages assets owned by clients that are not reflected on the consolidated balance sheet. Asset management fees are earned for providing investment management services and mutual fund products. Asset administration fees are earned for providing trust, estate administration and custodial services. Fees are recognized and reported in Other income as the services are provided.

Loan securitization

The bank adopted Canadian Institute of Chartered Accountants Accounting Guideline 12, *Transfers of Receivables*, effective April 1, 2001.

The bank periodically securitizes loans by selling loans to independent special-purpose vehicles or trusts that issue securities to investors. These transactions are accounted for as sales when the bank is deemed to have surrendered control over such assets and consideration other than beneficial interests in these transferred assets has been received by the bank in exchange. The bank often retains interests in the securitized loans, such as interest-only strips or servicing rights, and in some cases cash reserve accounts. Gains on these transactions are recognized in Other income and are dependent in part on the previous carrying amount of the loans involved in the transfer, which is allocated between the loans sold and the retained interests, based on their relative fair value at the date of transfer. To obtain fair values, quoted market prices are used, if available. Quotes are generally not available for retained interests, so the bank generally determines fair value based on the present value of future expected cash flows using management's best estimates of key assumptions such as payment rates, excess spread, credit losses and discount rates commensurate with the risks involved.

Generally, the loans are transferred on a fully serviced basis. As a result, the bank recognizes a servicing liability on the date of transfer and amortizes this liability to income over the term of the transferred loans.

Retained interests in securitizations that can be contractually prepaid or otherwise settled in such a way that the bank would not recover substantially all of its recorded investment are classified as Investment account securities.

Insurance operations

Earned premiums, fees, claims and changes in actuarial reserves are included in Other income. Investments are primarily included in Investment account securities and actuarial reserves are included in Other liabilities. Investment income is included in Interest income and administrative expenses are included in Non-interest expenses.

Premiums from long-duration contracts, primarily life insurance, are recognized as income when due. Premiums from short-duration contracts, primarily property and casualty, and fees for administrative services are recognized over the related contract period.

Reserves represent estimated liabilities for future insurance policy benefits. Reserves for life insurance contracts are determined using the policy premium method, which incorporates assumptions for mortality, morbidity, policy lapses and surrenders, investment yields, policy dividends, operating and policy maintenance expenses and provision for adverse deviations. These assumptions are updated to reflect the results of latest empirical tests. Reserves for property and casualty insurance include unearned premiums, representing the unexpired portion of premiums, and estimated provisions for reported and unreported claims incurred.

Realized gains and losses on disposal of investments that support life insurance liabilities are deferred and amortized to Other income over a maximum period of 20 years. The differences between market value and adjusted carrying cost of equity securities and real estate investments are reduced annually by 15% and 10%, respectively.

Deferred acquisition costs for life insurance are implicitly recognized in actuarial liabilities by the policy premium method. For property and casualty insurance these costs are classified as Other assets and amortized over the policy term.

Future accounting changes

The Canadian Institute of Chartered Accountants issued new standards on *Business Combinations* and *Goodwill and Other Intangible Assets.* The bank will adopt the new standards as of November 1, 2001.

The standards require that all business combinations be accounted for using the purchase method and establish specific criteria for the recognition of intangible assets separately from goodwill. Under the standards, goodwill will no longer be amortized but will be subject to impairment tests on at least an annual basis. During 2002, the bank will perform the required impairment tests on goodwill recorded as of November 1, 2001.

Goodwill amortized to income for the year ended October 31, 2001, is $246 million.

NOTE 2 Significant acquisitions and dispositions

Acquisitions

During the year, the bank acquired Liberty Life Insurance Company and Liberty Insurance Services Corporation (Liberty), Dain Rauscher Corporation (Dain Rauscher), Centura Banks, Inc. (Centura) and Tucker Anthony Sutro Corporation (Tucker Anthony Sutro). Adjustments to goodwill are permitted up to one year after the acquisition has closed in order to incorporate refinements to the initial fair value estimates of assets and liabilities acquired. The details of these acquisitions are as follows:

	Liberty	Dain Rauscher	Centura	Tucker Anthony Sutro
Acquisition date	November 1, 2000	January 10, 2001	June 5, 2001	October 31, 2001
Business segment	Insurance	Wealth Management and Corporate & Investment Banking	Personal & Commercial Banking	Wealth Management and Corporate & Investment Banking
Percentage of shares acquired	100%	100%	100%	100%
Cost	$890	$1,838	$3,331	$943
Purchase consideration	Assets were purchased with a dividend of US$70 paid from Liberty Life Insurance Company plus US$580 cash	Each Dain Rauscher common share was purchased for US$95 cash	Approximately 67 million RBC common shares were issued, valued at $49.20 each	Each Tucker Anthony Sutro common share was purchased for US$24 cash
Goodwill	$189	$1,544	$1,868	$692

NOTE 2 Significant acquisitions and dispositions (continued)

Fair values of net assets acquired

	Liberty	Dain Rauscher	Centura	Tucker Anthony Sutro	Total
Fair value of assets acquired					
Cash resources	$ 7	$ 111	$ 518	$ 54	$ 690
Securities	1,816	528	4,819	385	7,548
Loans	–	2,405	12,002	–	14,407
Premises and equipment	43	74	244	48	409
Core deposit intangibles	–	–	395	–	395
Other intangibles	–	–	12	–	12
Other assets	218	601	687	344	1,850
	$ 2,084	$ 3,719	$ 18,677	$ 831	$ 25,311
Fair value of liabilities assumed					
Deposits	$ –	$ 127	$ 11,195	$ 4	$ 11,326
Obligations related to assets sold under repurchase agreements	–	86	136	8	230
Other liabilities	1,383	3,212	5,883	568	11,046
	$ 1,383	$ 3,425	$ 17,214	$ 580	$ 22,602
Fair value of identifiable net assets acquired	$ 701	$ 294	$ 1,463	$ 251	$ 2,709
Goodwill	189	1,544	1,868	692	4,293
Total purchase consideration	$ 890	$ 1,838	$ 3,331	$ 943	$ 7,002

The following unaudited supplemental pro forma information has been prepared to give effect to these acquisitions as if they had occurred at the beginning of the year.

This information is the result of a calculation that combines the bank's results of operations for the years presented with each of the acquired companies' results of operations prior to the acquisition date, and adjusts for goodwill amortization, core deposit intangible amortization, funding costs and significant merger-related items as if these acquisitions had occurred at the beginning of the year.

The unaudited pro forma combined condensed results of operations are not intended to reflect the results of operations that would have actually resulted had these transactions occurred at the beginning of the year, or the results which may be obtained in the future.

Unaudited pro forma combined condensed results of operations

	2001	2000
Net interest income	$ 6,930	$ 6,128
Other income	9,531	9,530
Gross revenues	16,461	15,658
Provision for credit losses	1,165	741
Non-interest expenses	11,350	10,855
Income taxes	1,384	1,612
Non-controlling interest in net income of subsidiaries	107	74
Net income	$ 2,455	$ 2,376
Preferred share dividends	135	134
Net income available to common shareholders	$ 2,320	$ 2,242
Average number of diluted common shares (in thousands)	686,540	677,278
Diluted earnings per share (in dollars)	$ 3.38	$ 3.31

Dispositions

During the year, the bank sold its institutional asset management business operated by RT Capital Management Inc. and realized a pre-tax gain of $313 million (after-tax $251 million) recorded in Other income. The sale agreement includes provisions based on client retention experience six months after closing, which could potentially result in a reduction of $62 million to the after-tax gain. The bank has assessed that it is unlikely that this payment will be made.

In addition, the bank divested certain other businesses and realized a pre-tax gain of $132 million (after-tax $111 million) recorded in Other income.

NOTE 3 Results by business and geographic segment

2001	Personal & Commercial Banking	Insurance	Wealth Management	Corporate & Investment Banking	Transaction Processing	Total (1)	Canada	International (2)
Net interest income on taxable equivalent basis	$ 5,346	$ 206	$ 385	$ 430	$ 150	$ 6,549	$ 5,343	$ 1,206
Taxable equivalent adjustment	6	–	–	21	–	32	26	6
Net interest income	5,340	206	385	409	150	6,517	5,317	1,200
Other income	1,976	274	3,042	2,346	563	8,215	5,343	2,872
Gross revenues	7,316	480	3,427	2,755	713	14,732	10,660	4,072
Provision for credit losses	732	–	2	407	(2)	1,119	757	362
Non-interest expenses	4,331	375	2,688	1,804	476	9,755	6,469	3,286
Net income before income taxes	2,253	105	737	544	239	3,858	3,434	424
Income taxes	943	(28)	224	208	95	1,340	1,353	(13)
Non-controlling interest	10	–	–	–	–	107	97	10
Net income	$ 1,300	$ 133	$ 513	$ 336	$ 144	$ 2,411	$ 1,984	$ 427
Total average assets	$ 143,100	$ 5,300	$ 11,200	$ 156,400	$ 2,400	$ 327,100	$ 203,700	$ 123,400

2000	Personal & Commercial Banking	Insurance	Wealth Management	Corporate & Investment Banking	Transaction Processing	Total (1)	Canada	International (2)
Net interest income on taxable equivalent basis	$ 4,705	$ 84	$ 359	$ 43	$ 160	$ 5,307	$ 4,796	$ 511
Taxable equivalent adjustment	6	–	–	22	–	28	28	–
Net interest income	4,699	84	359	21	160	5,279	4,768	511
Other income	1,567	202	2,138	2,287	514	6,732	5,311	1,421
Gross revenues	6,266	286	2,497	2,308	674	12,011	10,079	1,932
Provision for credit losses	649	–	(1)	91	(21)	691	703	(12)
Non-interest expenses	3,660	173	1,838	1,445	459	7,581	6,423	1,158
Net income before income taxes	1,957	113	660	772	236	3,739	2,953	786
Income taxes	823	(19)	244	264	102	1,445	1,344	101
Non-controlling interest	5	–	–	–	–	20	15	5
Net income	$ 1,129	$ 132	$ 416	$ 508	$ 134	$ 2,274	$ 1,594	$ 680
Total average assets	$ 129,700	$ 2,100	$ 8,000	$ 131,900	$ 1,600	$ 281,900	$ 197,900	$ 84,000

1999	Personal & Commercial Banking	Insurance	Wealth Management	Corporate & Investment Banking	Transaction Processing	Total (1)	Canada	International (2)
Net interest income on taxable equivalent basis	$ 4,410	$ 47	$ 267	$ 402	$ 168	$ 5,155	$ 4,405	$ 750
Taxable equivalent adjustment	8	–	–	27	–	35	35	–
Net interest income	4,402	47	267	375	168	5,120	4,370	750
Other income	1,376	160	1,684	1,588	459	5,480	4,284	1,196
Gross revenues	5,778	207	1,951	1,963	627	10,600	8,654	1,946
Provision for credit losses	575	–	–	223	6	760	672	88
Non-interest expenses	3,699	133	1,540	1,295	436	7,060	5,973	1,087
Net income before income taxes	1,504	74	411	445	185	2,780	2,009	771
Income taxes	635	(17)	131	138	78	1,015	856	159
Non-controlling interest	4	–	–	–	–	8	4	4
Net income	$ 865	$ 91	$ 280	$ 307	$ 107	$ 1,757	$ 1,149	$ 608
Total average assets	$ 122,400	$ 1,400	$ 8,900	$ 127,300	$ 1,800	$ 269,900	$ 187,800	$ 82,100

(1) The difference between the total and the business segments presented represents other activities, which mainly comprise Corporate Treasury, Corporate Resources, Systems & Technology and Real Estate Operations.

(2) Includes United States Gross revenues of $2,835 million (2000 – $832 million; 1999 – $715 million).

For management reporting purposes, the operations of the bank are grouped into the business segments of Personal & Commercial Banking, Insurance, Wealth Management, Corporate & Investment Banking and Transaction Processing. The difference between the total and the business segments presented represents other activities, which mainly comprise Corporate Treasury, Corporate Resources, Systems & Technology and Real Estate Operations.

The business segments operate on an arm's-length basis with respect to the purchase and sale of intra-group services. Transfer pricing of funds sold or purchased, commissions, or charges and credits for services rendered are generally at market rates.

For geographic reporting purposes, Canadian-based activities of international money market units are included in International.

NOTE 4 Securities

	Term to maturity (1)					2001	2000
	Under 1 year	1 to 5 years	Over 5 years to 10 years	Over 10 years	With no specific maturity	Total	Total
Trading account (2)							
Canadian government debt (3)	$ 7,172	$ 3,179	$ 1,481	$ 1,200	$ –	$13,032	$10,294
U.S. Treasury and other U.S. agencies	525	236	105	87	–	953	2,004
Other OECD government debt	1,121	499	607	186	–	2,413	1,140
Mortgage-backed securities	11	230	167	281	–	689	68
Asset-backed securities	–	–	220	4,208	–	4,428	929
Other debt	12,278	4,517	2,310	2,147	–	21,252	17,255
Equities	–	–	–	–	15,425	15,425	13,787
	21,107	8,661	4,890	8,109	15,425	58,192	45,477
Investment account (2)							
Canadian government debt (3)							
Amortized cost	3,092	1,309	59	163	–	4,623	2,851
Estimated market value	3,144	1,341	60	163	–	4,708	2,843
Yield (4)	4.6%	5.0%	6.9%	7.7%	–	4.9%	6.1%
U.S. Treasury and other U.S. agencies							
Amortized cost	283	1,418	328	1	–	2,030	87
Estimated market value	284	1,480	353	1	–	2,118	87
Yield (4)	3.2%	5.1%	4.7%	6.2%	–	4.8%	6.0%
Other OECD government debt							
Amortized cost	1,225	303	33	–	–	1,561	1,574
Estimated market value	1,225	314	34	–	–	1,573	1,573
Yield (4)	0.3%	4.3%	4.7%	–	–	1.2%	2.1%
Mortgage-backed securities							
Amortized cost	220	3,370	442	499	–	4,531	4,091
Estimated market value	223	3,468	463	522	–	4,676	4,015
Yield (4)	5.6%	5.4%	6.7%	6.6%	–	5.6%	5.3%
Asset-backed securities							
Amortized cost	3	85	235	91	–	414	–
Estimated market value	4	88	246	96	–	434	–
Yield (4)	9.3%	12.4%	7.2%	7.0%	–	8.2%	–
Other debt							
Amortized cost	2,017	1,756	814	2,552	192	7,331	4,774
Estimated market value	1,995	1,746	826	2,616	192	7,375	4,689
Yield (4)	3.7%	4.7%	8.0%	6.6%	6.2%	5.5%	6.5%
Equities							
Cost	–	–	–	–	1,387	1,387	889
Estimated market value	–	–	–	–	1,423	1,423	968
Amortized cost	6,840	8,241	1,911	3,306	1,579	21,877	14,266
Estimated market value	6,875	8,437	1,982	3,398	1,615	22,307	14,175
Loan substitute (5)	54	141	237	–	6	438	465
Total carrying value of securities (2)	$28,001	$17,043	$ 7,038	$11,415	$17,010	$80,507	$60,208
Total estimated market value of securities	$28,036	$17,239	$ 7,109	$11,507	$17,046	$80,937	$60,117

(1) Actual maturities may differ from contractual maturities shown above, since borrowers may have the right to prepay obligations with or without prepayment penalties.
(2) Trading account securities are carried at estimated current market value. Investment account securities are carried at amortized cost for debt securities, and at cost for equity securities.
(3) Canadian government debt comprises securities issued or guaranteed by Canadian federal, provincial or municipal governments.
(4) The weighted average yield is based on the carrying value at the end of the year for the respective securities.
(5) The market value of loan substitute securities approximates carrying value.

Unrealized gains and losses on investment account

	2001				2000			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated market value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated market value
Canadian government debt (1)	$ 4,623	$ 85	$ –	$ 4,708	$ 2,851	$ 5	$ (13)	$ 2,843
U.S. Treasury and other U.S. agencies	2,030	88	–	2,118	87	–	–	87
Other OECD government debt	1,561	15	(3)	1,573	1,574	1	(2)	1,573
Mortgage-backed securities	4,531	145	–	4,676	4,091	2	(78)	4,015
Asset-backed securities	414	25	(5)	434	–	–	–	–
Other debt	7,331	169	(125)	7,375	4,774	36	(121)	4,689
Equities	1,387	104	(68)	1,423	889	102	(23)	968
	$21,877	$ 631	$ (201)	$22,307	$14,266	$ 146	$ (237)	$14,175

(1) Canadian government debt consists of securities issued or guaranteed by Canadian federal, provincial or municipal governments.

Realized gains and losses on investment account securities

	2001	2000	1999
Realized gains	$ 106	$ 106	$ 94
Realized losses	234	117	66
Gain (loss) on sale of securities	$ (128)	$ (11)	$ 28

NOTE 5 Loans

	2001	2000
Canada (1)		
Residential mortgage	$ 64,066	$ 61,444
Personal	27,202	27,207
Credit card	4,110	4,666
Business and government	32,682	36,200
Assets purchased under reverse repurchase agreements	22,860	12,094
	150,920	141,611
United States (1)		
Residential mortgage	2,664	845
Personal	4,621	78
Credit card	128	–
Business and government	22,397	12,457
Assets purchased under reverse repurchase agreements	3,668	2,524
	33,478	15,904
Other international (1)		
Residential mortgage	712	695
Personal	688	734
Credit card	45	–
Business and government	12,073	11,889
Assets purchased under reverse repurchase agreements	9,342	3,685
	22,860	17,003
Total loans (2)	207,258	174,518
Allowance for loan losses	(2,278)	(1,871)
Total loans net of allowance for loan losses	$ 204,980	$ 172,647

(1) Loans in Canada, United States and Other international include all loans booked in those locations, regardless of currency or residence of borrower.
(2) Loans are net of unearned income of $130 million (2000 – $121 million).

NOTE 5 | Loans (continued)

Loan maturities 2001

	Floating	Under 3 months	3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-rate-sensitive	2001 Total
Residential mortgage	$ 6,310	$ 7,361	$ 13,250	$ 39,098	$ 1,244	$ 179	$ 67,442
Personal	17,239	8,893	2,360	3,585	109	325	32,511
Credit card	–	3,543	–	–	–	740	4,283
Business and government	15,237	24,084	10,189	12,460	3,221	1,961	67,152
Assets purchased under reverse repurchase agreements	–	35,870	–	–	–	–	35,870
Total loans	$ 38,786	$ 79,751	$ 25,799	$ 55,143	$ 4,574	$ 3,205	207,258
Allowance for loan losses							(2,278)
Total loans net of allowance for loan losses							$ 204,980

Impaired loans

	2001					2000
	Gross	Specific allowance	Country risk allowance	General allowances	Net	Net
Residential mortgage	$ 179	$ (26)	$ –	$ –	$ 153	$ 162
Personal	325	(188)	–	–	137	51
Business and government (1)	1,961	(737)	(31)	–	1,193	690
General allowances for loan losses	–	–	–	(1,301)	(1,301)	(1,102)
	$ 2,465	$ (951)	$ (31)	$ (1,301)	$ 182	$ (199)

(1) Includes specific allowances of $5 million (2000 – $6 million) related to loan substitute securities.

Allowance for loan losses

	2001							2000
	Balance at beginning of year	Write-offs	Recoveries	Provision for credit losses	RBC Centura at acquisition date	Other	Balance at end of year	Balance at end of year
Residential mortgage	$ 57	$ (24)	$ –	$ 12	$ 2	$ 2	$ 49	$ 57
Personal	403	(401)	67	334	27	50	480	403
Credit card	88	(171)	44	186	4	1	152	88
Business and government (1)	1,090	(529)	74	722	102	27	1,486	1,090
General unallocated allowance	337	–	–	(135)	22	1	225	337
Total allowance for credit losses	$ 1,975	$ (1,125)	$ 185	$ 1,119	$ 157	$ 81	$ 2,392	$ 1,975
Specific allowances	$ 747	$ (1,125)	$ 185	$ 1,049	$ 22	$ 73	$ 951	$ 747
Country risk allowances	28	–	–	–	–	3	31	28
General allowance								
General allocated	863	–	–	205	113	4	1,185	863
General unallocated	337	–	–	(135)	22	1	225	337
Total general allowance for credit losses	1,200	–	–	70	135	5	1,410	1,200
Total allowance for credit losses	$ 1,975	$ (1,125)	$ 185	$ 1,119	$ 157	$ 81	$ 2,392	$ 1,975
Allowance for off-balance sheet and other items (2)							(109)	(98)
Allowance for loan substitute securities							(5)	(6)
Total allowance for loan losses							$ 2,278	$ 1,871

(1) Includes $5 million (2000 – $6 million) related to loan substitute securities and $109 million (2000 – $98 million) related to off-balance sheet and other items.
(2) Beginning in 2000, the allowance for off-balance sheet and other items was separated and reported under Other liabilities. Previously, the amount was included in the allowance for loan losses.

NOTE 6 Securitizations

During the year, the bank sold undivided interests in credit card loans to a trust, received cash proceeds of $1 billion and retained the rights to future excess interest of $10 million on the credit card loans. As part of the proceeds the bank assumed a servicing liability of $3 million and recognized a pre-tax gain on sale of $7 million in Securitization revenues.

During the year, the bank also securitized $800 million of government guaranteed residential mortgage loans through the creation of mortgage-backed securities, and initially sold $723 million of those securities. Mortgage-backed securities, created and unsold, remain on the consolidated balance sheet and are classified as Investment account. The bank received net cash proceeds of $720 million and retained the rights to future excess interest of $25 million on the residential mortgages. A pre-tax gain on sale, net of transaction costs, of $22 million was recognized in Securitization revenues.

The key assumptions used to value the sold and retained interests at the date of securitization for transactions completed during the year were as follows:

Key assumptions (1)

	Credit card loans	Residential mortgage loans
Payment rate	40.17%	12.00%
Excess spread, net of credit losses	6.57	1.02
Expected credit losses	1.68	–
Discount rate	12.50	5.41
Servicing	2.00	0.25

(1) All rates are annualized, except for credit card loans payment rate, which is monthly.

The actual credit loss experience of the securitized portion of the bank's credit card portfolio remains consistent with the assumption in the table above. Actual credit losses, net of recoveries, on the securitized portion of the bank's credit card portfolio in 2001 were $25 million. As at October 31, 2001, 97% of the bank's credit card portfolio was current, defined as being less than 31 days past due.

At October 31, 2001, the bank had a retained interest in $2.1 billion of securitized credit card loans ($1.1 billion at October 31, 2000) and $1.4 billion of bank created and sold mortgage-backed securities ($1.0 billion at October 31, 2000). At October 31, 2001, key economic assumptions and the sensitivity of the current fair value of these retained interests to immediate 10% and 20% adverse changes in key assumptions are as follows:

Sensitivity of key assumptions to adverse changes (1)

	Assumption		Impact on fair value	
	Credit card loans	Residential mortgage loans	Credit card loans	Residential mortgage loans
Payment rate	38.28%	7.73%		
Impact on fair value of 10% adverse change	42.11	8.50	$ (1.2)	$ (0.5)
Impact on fair value of 20% adverse change	45.94	9.27	(2.4)	(1.0)
Excess spread, net of credit losses	6.02	1.11		
Impact on fair value of 10% adverse change	5.42	1.00	(2.0)	(3.3)
Impact on fair value of 20% adverse change	4.82	0.89	(3.9)	(6.6)
Expected credit losses	1.68	–		
Impact on fair value of 10% adverse change	1.85	–	(0.6)	–
Impact on fair value of 20% adverse change	2.02	–	(1.2)	–
Discount rate	12.50	4.65		
Impact on fair value of 10% adverse change	13.75	5.12	(0.1)	(0.2)
Impact on fair value of 20% adverse change	15.00	5.58	(0.1)	(0.4)

(1) All rates are annualized, except for credit card loans payment rate, which is monthly.

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in the table above, the effect of a variation in a particular assumption on the fair value of the retained interests is calculated without changing any other assumption; generally, changes in one factor may result in changes in another, which may magnify or counteract the sensitivities.

The table below summarizes certain cash flows received from securitization trusts in 2001:

Cash flows from securitizations

	Credit card loans	Residential mortgage loans
Proceeds from new securitizations	$ 1,000	$ 720
Proceeds reinvested in revolving securitizations	6,972	13
Cash flows from retained interests in securitizations	60	10

NOTE 7 Premises and equipment

	2001			2000
	Cost	Accumulated depreciation	Net book value	Net book value
Land	$ 123	$ –	$ 123	$ 93
Buildings	697	283	414	251
Hardware and software	1,563	1,122	441	436
Furniture, fixtures and other equipment	858	545	313	205
Leasehold improvements	832	521	311	264
	$ 4,073	$ 2,471	$ 1,602	$ 1,249

NOTE 8 Subordinated debentures

The debentures are unsecured obligations and are subordinated in right of payment to the claims of depositors and certain other creditors. All repurchases, cancellations and exchanges of subordinated debentures are subject to the consent and approval of the Superintendent of Financial Institutions Canada.

Maturity	Earliest redemption date	Rate		Denominated in foreign currency	2001	2000
January 31, 2001		11.75%			$ –	$ 27
August 15, 2001		10.75%			–	15
January 11, 2002	January 11, 2002	11.00%			41	41
March 1, 2002	March 1, 2002	10.50%			60	60
July 29, 2005	(1)	(1)	Callable (2)	US$350	–	533
September 3, 2007	September 3, 2002	5.40% (3)	Callable (4)		400	400
September 3, 2008	September 3, 2003	5.45% (5)	Callable (4)		100	100
April 12, 2009	April 12, 2004	5.40% (6)	Callable (4)		350	350
June 11, 2009	June 11, 2004	5.10% (7)	Callable (4)		350	350
July 7, 2009	July 7, 2004	6.05% (8)	Callable (4)		175	175
October 12, 2009	October 12, 2004	6.00% (9)	Callable (4)		150	150
August 15, 2010	August 15, 2005	6.40% (10)	Callable (4)		700	700
February 13, 2011	February 13, 2006	5.50% (11)	Callable (12)		125	–
April 26, 2011	April 26, 2006	8.20% (13)	Callable (14)		100	100
September 12, 2011	September 12, 2006	6.50% (15)	Callable (4)		350	350
October 24, 2011	October 24, 2006	6.75% (16)	Callable (2)	US$300	476	457
June 4, 2012	June 4, 2007	6.75% (17)	Callable (4)		500	500
January 22, 2013	January 22, 2008	6.10% (18)	Callable (19)		500	–
November 14, 2014	November 14, 2014	10.00%			200	200
January 25, 2015	January 25, 2010	7.10% (20)	Callable (4)		500	500
April 12, 2016	April 12, 2011	6.30% (21)			400	–
June 8, 2023	June 8, 2023	9.30%			110	110
October 1, 2083	(22)	(23)	Callable (24)		250	250
June 6, 2085	(22)	(25)	Callable (2)	US$300	477	457
					$ 6,314	$ 5,825

(1) Interest at a rate of .0625% above the U.S. dollar 1-month LIBOR. Redeemed on May 31, 2001.
(2) Callable at the principal amount.
(3) Interest at a rate of 5.40% until September 3, 2002, and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(4) Callable at the greater of (i) the yield of Government of Canada bonds plus 5 basis points, or (ii) the principal amount.
(5) Interest at a rate of 5.45% until September 3, 2003, and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(6) Interest at a rate of 5.40% until April 12, 2004, and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(7) Interest at a rate of 5.10% until June 11, 2004, and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(8) Interest at a rate of 6.05% until July 7, 2004, and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(9) Interest at a rate of 6.00% until October 12, 2004, and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(10) Interest at a rate of 6.40% until August 15, 2005, and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(11) Interest at a rate of 5.50% until February 13, 2006, and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(12) Callable at the greater of (i) the yield of Government of Canada bonds plus 8 basis points, or (ii) the principal amount.
(13) Interest at a rate of 8.20% until April 26, 2006, and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(14) Callable at the greater of (i) the yield of Government of Canada bonds plus 10 basis points, or (ii) the principal amount.
(15) Interest at a rate of 6.50% until September 12, 2006, and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(16) Interest at a rate of 6.75% until October 24, 2006, and thereafter at a rate of 1.00% above the U.S. dollar 6-month LIBOR.
(17) Interest at a rate of 6.75% until June 4, 2007, and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(18) Interest at a rate of 6.10% until January 22, 2008, and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(19) Callable at the greater of (i) the yield of Government of Canada bonds, or (ii) the principal amount.
(20) Interest at a rate of 7.10% until January 25, 2010, and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(21) Interest at a rate of 6.30% until April 12, 2011, and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(22) Redeemable at any interest payment date at the option of the bank.
(23) Interest at a rate of .40% above the 30-day Bankers' Acceptance rate.
(24) Callable at an amount not exceeding 100.5% of the principal amount plus accrued and unpaid interest up to the date of redemption.
(25) Interest at a rate of .25% above the U.S. dollar 3-month LIMEAN. In the event of a reduction of the annual dividend declared by the bank on its Common Shares, the interest payable on the debentures is reduced pro rata to the dividend reduction and the interest reduction is payable with the proceeds from the sale of Common Shares.

Repayment schedule

The aggregate maturities of the debentures, based on the maturity dates under the terms of issue, are as follows:

2002	$ 101
2003	–
2004	–
2005	–
2006	–
2007 to 2011	3,276
Thereafter	2,937
	$ 6,314

Subsequent event

Subsequent to year-end, on November 8, 2001, the bank issued subordinated debentures of US$400 million. Interest is paid at a rate of 0.50% above the U.S. dollar three-month LIBOR until November 8, 2006, and thereafter at a rate of 1.50% above the U.S. dollar three-month LIBOR.

NOTE 9 Capital stock

Authorized capital stock

Preferred – An unlimited number of First Preferred Shares and Second Preferred Shares without nominal or par value, issuable in series; the aggregate consideration for which all the First Preferred Shares and all the Second Preferred Shares that may be issued may not exceed $10 billion and $5 billion, respectively.

Common – An unlimited number of shares without nominal or par value may be issued.

Issued and outstanding capital stock

	2001			2000			1999		
	Number of shares (000s)	**Amount**	**Dividends declared per share**	Number of shares (000s)	Amount	Dividends declared per share	Number of shares (000s)	Amount	Dividends declared per share
First Preferred									
Non-cumulative Series E	**1,500**	**$ 150**	**$ 5.16**	1,500	$ 150	$ 5.38	1,500	$ 150	$ 4.69
Non-cumulative Series H (1)	**–**	**–**	**1.69**	12,000	300	2.25	12,000	300	2.25
US$ Non-cumulative Series I (1)	**8,000**	**318**	**US 1.91**	8,000	304	US 1.91	8,000	294	US 1.91
Non-cumulative Series J	**12,000**	**300**	**1.78**	12,000	300	1.78	12,000	300	1.78
US$ Non-cumulative Series K	**10,000**	**397**	**US 1.58**	10,000	381	US 1.58	10,000	368	US 1.58
Non-cumulative Series N	**12,000**	**300**	**1.18**	12,000	300	1.18	12,000	300	1.18
Non-cumulative Series O	**6,000**	**150**	**1.38**	6,000	150	1.38	6,000	150	0.58
US$ Non-cumulative Series P	**4,000**	**159**	**US 1.44**	4,000	152	US 1.44	4,000	147	US 0.61
Non-cumulative Series S	**10,000**	**250**	**0.65**	–	–	–	–	–	–
		$ 2,024			$ 2,037			$ 2,009	
Common									
Balance at beginning of year	**602,398**	**$ 3,076**		617,768	$ 3,065		617,581	$ 2,925	
Issued	**12,305**	**576**		–	–		–	–	
Issued under the Stock Option Plan	**2,819**	**81**		2,700	59		953	17	
Issued on the acquisition of Centura Banks, Inc.	**67,413**	**3,317**		–	–		–	–	
Options granted on acquisition of Dain Rauscher Corporation	**–**	**33**		–	–		–	–	
Issued on the acquisition of Richardson Greenshields Limited (2)	**13**	**2**		1,667	50		9,580	170	
Issued on the acquisition of RBC Dominion Securities Limited (3)	**–**	**–**		–	–		140	5	
Purchased for cancellation (4)	**(10,927)**	**(112)**		(19,737)	(98)		(10,486)	(52)	
Balance at end of year	**674,021**	**$ 6,973**	**$ 1.38**	602,398	$ 3,076	$ 1.14	617,768	$ 3,065	$ 0.94

(1) On August 24, 2001, the bank redeemed First Preferred Shares **Series H**. On September 25, 2001, the bank announced its intention to redeem First Preferred Shares **Series I** on November 26, 2001.

(2) During the year the bank exchanged 36,527 (2000 – 4,701; 1999 – 4,606,341) Class B shares and 77,956 (2000 – 8,008,712; 1999 – nil) Class C shares issued by its wholly owned subsidiary, Royal Bank DS Holding Inc., on the acquisition of Richardson Greenshields Limited for 13,621 (2000 – 1,667,334; 1999 – 9,579,166) Common Shares. On November 9, 2001, the remaining balance of Class C shares was exchanged for 318,154 Common Shares.

(3) On November 1, 1998, the bank acquired all of the outstanding participating preferred shares of RBC Dominion Securities Limited in exchange for 140,000 Common Shares.

(4) In June 2001 and in May 1999 (amended in February 2000), pursuant to a normal course issuer bid, the bank announced its intention to repurchase up to 18,000,000 and 18,707,963 Common Shares, respectively, during the 12 months ended June 22, 2002, and June 23, 2000, respectively. Purchases were made in the open market at market prices through the facilities of the Toronto and Montreal Stock Exchanges, and in accordance with stock exchange requirements. The amount and timing of any such purchases were determined by the bank. Premiums paid above the average carrying value of the Common Shares were charged to retained earnings. The bank repurchased 10,927,200 Common Shares (2000 – 19,736,880; 1999 – 10,485,800) at a cost of $509 million (2000 – $660 million; 1999 – $333 million), common stock was reduced by $112 million (2000 – $98 million; 1999 – $52 million) and retained earnings was reduced by $397 million (2000 – $562 million; 1999 – $281 million).

NOTE 9 Capital stock (continued)

Terms of preferred shares

	Dividend per share (1)	Redemption date (2)	Redemption price (3)	Conversion dates: At the option of the bank (2), (4)	Conversion dates: At the option of the holder (5)
First Preferred					
Non-cumulative Series E (6)	(6)	September 2, 2002	$100.00	Not convertible	Not convertible
US$ Non-cumulative Series I	US 0.476563	November 24, 2001	US 25.00	November 24, 2001	February 24, 2002
Non-cumulative Series J	0.443750	May 24, 2003	25.00	May 24, 2003	November 24, 2003
US$ Non-cumulative Series K	US 0.393750	May 24, 2003	US 25.00	May 24, 2003	November 24, 2003
Non-cumulative Series N	0.293750	August 24, 2003	26.00	August 24, 2003	August 24, 2008
Non-cumulative Series O	0.343750	August 24, 2004	26.00	August 24, 2004	Not convertible
US$ Non-cumulative Series P	US 0.359375	August 24, 2004	US 26.00	August 24, 2004	Not convertible
Non-cumulative Series S	0.38125	August 24, 2006	26.00	August 24, 2006	Not convertible

(1) Non-cumulative preferential dividends on First Preferred Shares **Series E** are payable, as and when declared by the Board of Directors, on the 12th day of every month. Non-cumulative preferential dividends on **Series I, J, K, N, O, P** and **S** are payable quarterly, as and when declared by the Board of Directors, on or about the 24th day of February, May, August and November.

(2) Subject to the consent of the Superintendent of Financial Institutions Canada and the requirements of the *Bank Act*, the bank may, on or after the dates specified above, redeem First Preferred Shares. These may be redeemed (i) for cash, in the case of First Preferred Shares **Series E, I, J** and **K** equal to the redemption price as stated above, in the case of **Series N** at a price per share of $26, if redeemed during the 12-months commencing August 24, 2003, and decreasing by $0.25 each 12-month period thereafter to a price per share of $25 if redeemed on or after August 24, 2007, and in the case of **Series O** and **P** at a price per share of $26 if redeemed during the 12 months commencing August 24, 2004, and decreasing by $0.25 each 12-month period thereafter to a price per share of $25 if redeemed on or after August 24, 2008, and in the case of **Series S** at a price per share of $26 if redeemed during the 12 months commencing August 26, 2006, and decreasing by $0.25 each 12-month period thereafter to a price per share of $25 if redeemed on or after August 24, 2010, or (ii) by conversion, in the case of **Series I, J** and **K** into that number of Common Shares determined by dividing the then-applicable redemption price by the greater of $2.50 and 95% of the weighted average trading price of Common Shares at such time.

(3) Subject to the consent of the Superintendent of Financial Institutions Canada and the requirements of the *Bank Act*, the bank may purchase First Preferred Shares for cancellation at a purchase price, in the case of the **Series E, I, J** and **K** not exceeding the then-applicable redemption price specified above plus all declared and unpaid dividends, and, in the case of the **Series N, O, P** and **S** at the lowest price or prices at which, in the opinion of the Board of Directors, such shares are obtainable.

(4) Subject to the approval of The Toronto Stock Exchange, the bank may, on or after the dates specified above, convert First Preferred Shares **Series N, O, P** and **S** into Common Shares of the bank. First Preferred Shares may be converted into that number of Common Shares determined by dividing the then-applicable redemption price by the greater of $2.50 and 95% of the weighted average trading price of Common Shares at such time.

(5) Subject to the right of the bank to redeem or to find substitute purchasers, the holder may, on or after the dates specified above, convert First Preferred Shares into Common Shares of the bank. **Series I, J, K** and **N** may be converted, quarterly, into that number of Common Shares determined by dividing the then-applicable redemption price by the greater of $2.50 and 95% of the weighted average trading price of Common Shares at such time.

(6) The rights, privileges, restrictions and conditions attaching to the First Preferred Shares **Series E** were amended in 1997. Holders are entitled to receive, as and when declared by the Board of Directors, a monthly non-cumulative cash dividend that (i) floats in relation to the bank's Canadian prime rate and (ii) is adjusted upwards or downwards based on changes in market trading value. The annual dividend rate applicable to any month will in no event be less than the sum of .25% plus 55% of the average prime rate or greater than the sum of .25% plus 75% of the average prime rate.

Restrictions on the payment of dividends

The bank is prohibited by the *Bank Act* (Canada) from declaring any dividends on its preferred or common shares when the bank is, or would be placed as a result of the declaration, in contravention of the capital adequacy and liquidity regulations or any regulatory directives issued under the act. The bank may not pay dividends on its common shares at any time unless all dividends to which preferred shareholders are then entitled have been declared and paid or set apart for payment.

The bank has agreed that if RBC Capital Trust (a closed-end trust which is a subsidiary of the bank) fails to pay any required distribution on its capital trust securities, it will not declare dividends of any kind on any of its preferred or common shares.

Currently, all of the aforementioned limitations do not restrict the payment of dividends on preferred or common shares.

Regulatory capital

The bank is subject to the regulatory capital requirements defined by the Superintendent of Financial Institutions Canada (OSFI), which includes the use of Canadian GAAP. Two measures of capital strength established by OSFI, based on standards issued by the Bank for International Settlements (BIS), are risk-adjusted capital ratios and the assets-to-capital multiple.

OSFI requires Canadian banks to maintain a minimum Tier 1 and Total capital ratio of 4% and 8%, respectively. However, OSFI has also formally established risk-based capital targets for deposit-taking institutions in Canada. These targets are a Tier 1 capital ratio of at least 7% and a Total capital ratio of at least 10%. At October 31, 2001, the bank's Tier 1 and Total capital ratios were 8.7% and 11.8%, respectively (2000 – 8.6% and 12.0%, respectively).

In the evaluation of the bank's assets-to-capital multiple, OSFI specifies that total assets, including specified off-balance sheet financial instruments, should be no greater than 23 times Total capital. At October 31, 2001, the bank's assets-to-capital multiple was 17.2 times (2000 – 15.3 times).

During the year, the bank issued $750 million (2000 – $650 million) of Trust Capital Securities (RBC TruCS), a form of innovative Tier 1 capital under both Canadian and U.S. guidelines, which are reported as Non-controlling interest in a subsidiary on the consolidated balance sheet.

Other

On October 27, 2000, the bank entered into a five-year agreement with a AAA rated reinsurer, which requires the reinsurer to purchase up to $200 million of non-cumulative first preferred shares at the October 27, 2000 market price should the general allowance for credit losses be drawn down below a certain level. If these shares had been issued they would have qualified as Tier 1 capital.

Subsequent event

On September 25, 2001, the bank announced its intention to redeem First Preferred Share Series I on November 26, 2001.

NOTE 10 Income taxes

	2001	2000	1999
Provision for income tax in income			
Current			
Canada – Federal	$ 845	$ 799	$ 580
Provincial	360	349	234
International	103	258	176
	1,308	1,406	990
Deferred			
Canada – Federal	16	60	38
Provincial	1	20	(3)
International	15	(41)	(10)
	32	39	25
	1,340	1,445	1,015
Income tax expense (benefit) in shareholders' equity			
Unrealized foreign currency translation gains and losses, net of hedging activities	(487)	(37)	213
Cumulative effect of initial adoption of *Employee Future Benefits* accounting standard	(157)	–	–
	(644)	(37)	213
Total income taxes	$ 696	$ 1,408	$ 1,228

Deferred income taxes (temporary differences)

	2001	2000	1999
Deferred income tax asset (1)			
Allowance for credit losses	$ 582	$ 514	$ 509
Deferred compensation	190	78	19
Pension related	93	–	–
Tax loss carryforwards	84	72	19
Premises and equipment	–	83	–
Deferred income	61	81	62
Other	399	223	335
	1,409	1,051	944
Deferred income tax liability			
Premises and equipment	(91)	–	(29)
Deferred expense	(88)	(59)	–
Pension related	–	(119)	(141)
Other	(134)	(77)	(171)
	(313)	(255)	(341)
Net deferred income tax asset	$ 1,096	$ 796	$ 603

(1) The bank has determined that it is more likely than not that its deferred income tax asset will be realized through a combination of future reversals of temporary differences and taxable income.

Reconciliation to statutory tax rate

	2001		2000		1999	
Income taxes at Canadian statutory tax rate	$ 1,601	41.5%	$ 1,600	42.8%	$ 1,194	43.0%
Increase (decrease) in income taxes resulting from						
Lower average tax rate applicable to subsidiaries	(253)	(6.5)	(311)	(8.3)	(199)	(7.1)
Tax-exempt income from securities	(7)	(.2)	(7)	(.2)	(10)	(.4)
Other	(1)	(.1)	163	4.3	30	1.0
Income taxes reported in income/effective tax rate	$ 1,340	34.7%	$ 1,445	38.6%	$ 1,015	36.5%

Foreign earnings of certain subsidiaries would be taxed only upon their repatriation to Canada. The bank has not recognized a deferred tax liability for these undistributed earnings as management does not currently expect them to be repatriated. Taxes that would be payable if all foreign subsidiaries' accumulated unremitted earnings were repatriated are estimated at $772 million as at October 31, 2001 (2000 – $737 million; 1999 – $729 million).

NOTE 11 Pensions and other postretirement benefits

The bank sponsors a number of defined benefit and defined contribution plans providing pension and other postretirement benefits to eligible employees.

The following tables present information related to the bank's benefit plans, including amounts recorded on the consolidated balance sheet and the components of net periodic benefit cost:

	Pension plans		Other postretirement plans (1)	
	2001	2000 (2)	2001	2000 (2)
Change in fair value of plan assets (3)				
Fair value of plan assets at beginning of year	$ 4,519	$ 4,135	$ 67	$ 68
Actual return on plan assets	123	326	7	3
Company contributions	20	13	1	–
Plan participant contributions	24	18	–	–
Benefits paid	(251)	(197)	(2)	(4)
Experience gain (loss)	(599)	266	–	–
Plan settlements	–	–	(72)	–
Business acquisitions	63	–	–	–
Change in foreign currency exchange rate	6	(12)	–	–
Transfers from (to) other plans	144	(11)	–	–
Other	–	(19)	–	–
Fair value of plan assets at end of year	$ 4,049	$ 4,519	$ 1	$ 67
Change in benefit obligation				
Benefit obligation at beginning of year	$ 3,710	$ 3,471	$ 609	$ 574
Service cost	104	98	64	17
Interest cost	268	254	49	42
Plan participant contributions	18	18	–	–
Actuarial loss (gain)	55	70	19	(7)
Benefits paid	(251)	(197)	(22)	(17)
Transfers to other plans	–	(4)	–	–
Plan amendments and curtailments	31	15	–	–
Plan settlements	–	–	(72)	–
Business acquisitions	117	–	35	–
Change in foreign currency exchange rate	(9)	(15)	–	–
Changes in assumptions	1	–	11	–
Benefit obligation at end of year	$ 4,044	$ 3,710	$ 693	$ 609
Funded status				
Overfunded (underfunded) status at end of year	$ 5	$ 809	$ (692)	$ (542)
Unrecognized net actuarial loss (gain)	32	(756)	42	31
Unrecognized transition obligation	(24)	(1)	207	226
Unrecognized past service cost	205	258	10	–
Other	(48)	(94)	1	–
Prepaid (accrued) benefit expense	$ 170	$ 216	$ (432)	$ (285)
Weighted average assumptions as at October 31				
Discount rate	7.00%	7.25%	7.25%	7.25%
Assumed long-term rate of return on plan assets	7.0%	7.0%	4.75%	4.75%
Rate of increase in future compensation	4.4%	4.4%	4.4%	4.4%

Pension benefit expense (4)

	2001	2000	1999
Service cost	$ 104	$ 98	$ 120
Interest cost	268	254	238
Expected return on plan assets	(306)	(291)	(274)
Amortization of transition asset	(2)	(2)	–
Amortization of prior service cost	17	22	(3)
Amortization of net pension surplus	–	–	(1)
Recognized net actuarial loss (gain)	(45)	(41)	13
Change in valuation allowance	(14)	19	(10)
Defined benefit pension expense	22	59	83
Defined contribution pension expense	30	6	6
Pension benefit expense	$ 52	$ 65	$ 89

Other postretirement benefits expense (1)

	2001	2000	1999
Service cost	$ 64	$ 17	$ 20
Interest cost	49	42	40
Expected return on plan assets	(1)	(3)	(3)
Amortization of transition adjustment	17	17	17
Recognized net actuarial loss	–	–	1
Other	2	–	–
Other postretirement benefits expense	$ 131	$ 73	$ 75

(1) Includes postretirement health, dental and life insurance. The assumed health care cost trend rates for the next year used to measure the expected cost of benefits covered for the postretirement health and life plans were 7.25% for medical and 4.75% for dental with the ultimate trend rate of 4.5%. A one percentage point increase in assumed health care cost trend rates would have increased the service and interest costs and obligation by $18 million and $85 million, respectively. A one percentage point decrease in assumed health care cost trends would have lowered the service and interest costs and the obligation by $13 million and $67 million, respectively.
(2) Comparative figures have been restated resulting from the adoption of the Canadian Institute of Chartered Accountants new standard on *Employee Future Benefits*.
(3) Plan assets include the bank's Common Shares having a fair value of $43 million (2000 – $38 million).
(4) An assumed discount rate of 7.0% (2000 – 7.25%; 1999 – 6.5%) was used to determine pension expense.

NOTE 12 Stock-based compensation

Stock Option Plan

A Stock Option Plan is offered to certain key employees and non-employee directors of the bank. Under this plan, options are periodically granted to purchase common shares at prices not less than the market price of such shares immediately prior to the grant date. The options vest over a 4-year period for employees and immediately for directors and are exercisable for periods not exceeding 10 years.

For all options issued prior to 2000, no compensation expense was recognized since on the day of the grant the option's exercise price is not less than the market price of the underlying stock. When the options are exercised, the proceeds received are credited to common shares.

Beginning in 2000, the Stock Option Plan was amended to include Stock Appreciation Rights (SARs). The amended plan entitles a participant to elect to exercise either an option or the corresponding SAR. SARs can be exchanged for a cash amount equal to the difference between the exercise price and the closing price of the common shares on the day immediately preceding the day of exercise. Up to 100% of vested options can be exercised as SARs. The bank expects participants to exercise SARs and, as a result, accounts for this plan using the terms of the SAR rather than the option. The compensation expense recorded for the year ended October 31, 2001, in respect of this plan was $23 million (2000 – $52 million).

Stock options

	2001		2000		1999	
	Number of options (000s)	**Weighted average exercise price**	Number of options (000s)	Weighted average exercise price	Number of options (000s)	Weighted average exercise price
Outstanding at beginning of year	**25,880**	**$ 33.61**	20,966	$ 32.42	15,422	$ 28.66
Granted	**7,949**	**44.46**	8,286	33.09	6,828	39.01
Exercised – Common shares	**(2,819)**	**28.77**	(2,700)	22.05	(953)	17.83
– SARs	**(259)**	**33.55**	–	–	–	–
Cancelled	**(593)**	**37.82**	(672)	36.10	(331)	35.50
Outstanding at end of year	**30,158**	**$ 36.84**	25,880	$ 33.61	20,966	$ 32.42
Exercisable at end of year	**12,895**	**$ 32.62**	8,881	$ 30.29	5,988	$ 25.29
Available for grant	**20,289**		25,849		8,463	

Range of exercise prices

	Options outstanding			**Options exercisable**	
	Number outstanding (000s)	**Weighted average exercise price**	**Weighted average remaining contractual life**	**Number exercisable (000s)**	**Weighted average exercise price**
$14.46–$15.68	**1,392**	**$ 15.59**	**4.9**	**1,392**	**$ 15.59**
$24.80–$28.25	**3,959**	**25.93**	**7.5**	**3,200**	**25.40**
$30.00–$39.64	**18,845**	**36.81**	**8.1**	**8,213**	**38.18**
$43.59–$50.72	**5,962**	**49.17**	**10.0**	**90**	**46.49**
Total	**30,158**	**$ 36.84**	**8.3**	**12,895**	**$ 32.62**

Employee Share Ownership Plans

The bank offers a Royal Employee Savings and Share Ownership Plan (RESSOP) to its employees, whereby the bank contributes 50% of employees' contributions to a maximum of 3% of the employee's salary in the form of common shares. The bank contributed $39 million (2000 – $39 million; 1999 – $40 million), under the terms of RESSOP, towards the purchase of common shares. As at October 31, 2001, an aggregate of 15,329,595 common shares were held under RESSOP.

A Restricted Share Ownership Plan is offered to certain employees of the bank. Under this plan, common shares are purchased for employees. The common shares are held in trust, and vest over two to three years. The value of the restricted shares as at October 31, 2001, was $2 million.

Deferred Share Plans

A Deferred Share Unit Plan is offered to executive officers and non-employee directors of the bank. Under this plan, each officer or director may choose to receive all or a percentage of their annual incentive bonus or fee in the form of deferred share units (DSUs). This election to participate in the plan must be made prior to the beginning of the fiscal year. The DSUs accumulate additional DSUs at the same rate as dividends on common shares. Officers and directors are not allowed to convert the DSUs until termination or retirement. The value of the DSUs, when converted to cash, will be equivalent to the market value of the common shares at the time the conversion takes place. The value of the DSUs as at October 31, 2001, was $52 million (2000 – $26 million; 1999 – $20 million). The compensation expense recorded for the year ended October 31, 2001, in respect of this plan was $8 million.

A Deferred Bonus Plan is offered to certain key employees of RBC Capital Markets. Under this plan, a percentage of each employee's annual incentive bonus is deferred and accumulates dividends at the same rate as dividends on common shares. The employee will receive the deferred bonus in equal amounts on the following three year-end dates. The value of the deferred bonus paid will be equivalent to the original deferred bonus adjusted for dividends and changes in the market value of common shares at the time the bonus is paid. The value of the deferred bonus as at October 31, 2001, was $128 million (2000 – $89 million; 1999 – $26 million). The compensation expense recovery for the year ended October 31, 2001, in respect of this plan was $5 million.

Deferred Share Plans are offered to certain key employees of RBC Investments. Under these plans, a percentage of each employee's year-end incentive bonus is deferred in the form of common shares. The shares are held in trust and vest over three years. The value of the deferred shares as at October 31, 2001, was $14 million.

NOTE 12 Stock-based compensation (continued)

Retention Plan – RBC Dain Rauscher

On the acquisition of Dain Rauscher, certain key employees of Dain Rauscher were offered retention payments totalling $318 million to be paid out evenly over expected service periods of between three and four years. Payments to participants of the plan are based on the market value of common shares on the vesting date. The compensation expense recorded for the year ended October 31, 2001, in respect of this plan was $143 million.

Other

A mid-term compensation plan is offered to certain senior executive officers of the bank. Under this plan, share units that vest evenly over three years are granted to participants of the plan. Payments under the plan will be made each year based on the market value of common shares on the vesting date. The value of the share units as at October 31, 2001, was $21 million. The compensation expense recorded for the year ended October 31, 2001, in respect of this plan was $8 million.

NOTE 13 Restructuring charges

During the year, the bank recorded $91 million of restructuring costs in the consolidated statement of income as a result of the acquisition of Centura Banks, Inc. There were no restructuring charges in 2000.

	Balance at beginning of year	2001 Additions	Amount utilized	**Balance at end of year**
Human resources	$ 22	$ 22	$ 36	**$ 8**
Occupancy	21	–	17	**4**
Equipment	2	42	43	**1**
Other	4	27	13	**18**
	$ 49	$ 91	$ 109	**$ 31**

NOTE 14 Earnings per share

	2001	2000	1999
Basic earnings per share			
Net income	**$ 2,411**	$ 2,274	$ 1,757
Preferred share dividends	**(135)**	(134)	(157)
Net income available to common shareholders	**$ 2,276**	$ 2,140	$ 1,600
Average number of common shares outstanding	**641,516**	606,389	626,158
	$ 3.55	$ 3.53	$ 2.55
Diluted earnings per share			
Net income available to common shareholders	**$ 2,276**	$ 2,140	$ 1,600
Effect of assumed conversions (1)	**1**	2	2
Net income adjusted for diluted computation	**$ 2,277**	$ 2,142	$ 1,602
Weighted average number of shares outstanding	**641,516**	606,389	626,158
Convertible Class B and C shares (1)	**363**	736	2,708
Stock options (2)	**5,337**	2,740	3,439
Weighted average diluted number of shares outstanding	**647,216**	609,865	632,305
	$ 3.52	$ 3.51	$ 2.53

(1) The convertible shares include the Class B and C shares issued by the bank's wholly owned subsidiary Royal Bank DS Holding Inc., on the acquisition of Richardson Greenshields Limited on November 1, 1996. The Class B shares are exchangeable into Royal Bank of Canada Common Shares, while the exchange of the Class C shares is determined based on the bank's average Common Share price during the 20 days prior to the date the exchange is made. During the year the bank exchanged 36,527 (2000 – 4,701; 1999 – 4,606,341) Class B shares and 77,956 (2000 – 8,008,712; 1999 – nil) Class C shares for 13,621 (2000 – 1,667,334; 1999 – 9,579,166) Common Shares.

(2) The dilutive effect of stock options was computed using the treasury stock method. This method computes the number of incremental shares by assuming the outstanding stock options are (i) exercised and (ii) then reduced by the number of shares assumed to be repurchased from the issuance proceeds, using the average market price of our common stock for the period. Excluded from the computation of diluted earnings per share were average options outstanding of 7,862 with an exercise price of $50.72 and average options outstanding of 1,956 with an exercise price of $49.03 (2000 – 6,153,507 at $39.64; 6,589,464 at $39.01; 2,639 at $38.22; and 393 at $43.59; 1999 – 6,355,830 at $39.64 and 6,237,862 at $39.01) as the options' exercise prices were greater than the average market price of the bank's common stock.

NOTE 15 | Commitments and contingencies

Financial instruments with contractual amounts representing credit risk

The primary purpose of these commitments is to ensure that funds are available to a client as required. The bank's policy for requiring collateral security with respect to these instruments and the types of collateral security held is generally the same as for loans.

Guarantees and standby letters of credit, which represent irrevocable assurances that the bank will make payments in the event that a client cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the bank on behalf of a client authorizing a third party to draw drafts on the bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipment of goods to which they relate.

In securities lending transactions, the bank acts as an agent for the owner of a security, who agrees to lend the security to a borrower for a fee, under the terms of a pre-arranged contract. The borrower must fully collateralize the security loan at all times.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, bankers' acceptances, guarantees or letters of credit.

Uncommitted amounts represent an amount for which the bank retains the option to extend credit to a borrower.

A note issuance facility represents an underwriting agreement that enables a borrower to issue short-term debt securities. A revolving underwriting facility represents a note issuance facility that can be accessed for a specified period of time.

Financial instruments with contractual amounts representing credit risk

	2001	2000
Guarantees and standby letters of credit	**$ 13,391**	$ 13,658
Documentary and commercial letters of credit	**750**	456
Securities lending	**21,377**	20,333
Commitments to extend credit		
Original term to maturity of 1 year or less	**44,179**	38,853
Original term to maturity of more than 1 year	**39,960**	41,599
Uncommitted amounts	**53,750**	59,113
Note issuance/revolving underwriting facilities	**132**	155
	$ 173,539	$ 174,167

Lease commitments

Minimum future rental commitments for premises and equipment under long-term non-cancellable leases for the next five years and thereafter are shown below.

Lease commitments

2002	$ 385
2003	350
2004	315
2005	268
2006	307
Thereafter	853
Total	$ 2,478

Litigation

Various legal proceedings are pending that challenge certain practices or actions of the bank and its subsidiaries. Many of these proceedings are loan-related and are in reaction to steps taken by the bank and its subsidiaries to collect delinquent loans and enforce rights in collateral securing such loans. Management considers that the aggregate liability resulting from these proceedings will not be material.

Pledged assets

Securities with a carrying value of $46.8 billion (2000 – $27.6 billion) have been pledged as collateral for various types of funding transactions including obligations related to assets sold under repurchase agreements and obligations related to securities sold short. Securities owned that are pledged as collateral that can be sold or repledged by the secured party are reported in Trading account securities of $3.6 billion and Investment account securities of $2.6 billion on the consolidated balance sheet. Included in the securities pledged are assets with a carrying value of $2.6 billion (2000 – $2.4 billion) that have been deposited as collateral in order to participate in clearing and payment systems and depositories or to have access to the facilities of central banks in foreign jurisdictions.

The fair value of collateral accepted that can be sold or repledged by the bank totalled $52.9 billion. Such collateral is generally obtained under reverse repurchase and securities borrowing agreements. Of this collateral, $41.9 billion has been sold or repledged, generally as collateral under repurchase agreements or to cover short sales.

NOTE 16 Derivative financial instruments

Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity or commodity instrument or index.

Derivative product types

The bank uses the following derivative financial instruments for both trading and non-trading purposes.

Swaps are transactions in which two parties exchange cash flows on a specified notional amount for a predetermined period. For interest rate swaps, fixed and floating interest payments are exchanged based on a notional amount. Cross currency swaps involve the exchange of fixed or floating interest payments in one currency for the receipt of fixed or floating interest payments in another currency. Cross currency interest rate swaps involve the exchange of both interest and principal amounts in two different currencies.

Forwards and futures are contractual obligations to buy or sell a financial instrument on a future date at a specified price. Forward contracts are effectively tailor-made agreements that are transacted between counterparties in the over-the-counter market, whereas futures are standardized contracts that are transacted on regulated exchanges.

Options are contractual agreements under which the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or sell (put option), by or at a set date, a specified amount of a financial instrument at a predetermined price. The seller receives a premium from the purchaser for this right.

Derivatives held or issued for trading purposes

Most of the bank's derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to transfer, modify or reduce current or expected risks. Trading involves market-making, positioning and arbitrage activities. Market-making involves quoting bid and offer prices to other market participants with the intention of generating revenues based on spread and volume. Positioning involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage activities involve identifying and profiting from price differentials between markets and products. The bank does not deal, to any significant extent, in leveraged derivative transactions. These transactions contain a multiplier which, for any given change in market prices, could cause the change in the transaction's fair value to be significantly different from the change in fair value that would occur for a similar derivative without the multiplier.

Derivatives held or issued for non-trading purposes

The bank also uses derivatives in connection with its own asset/liability management activities, which include hedging and investment activities.

Interest rate swaps are used to adjust exposure to interest rate risk by modifying the repricing or maturity characteristics of existing and/or anticipated assets and liabilities. As at October 31, 2001, the level of interest rate derivatives in place to hedge anticipated transactions, and accounted for as a hedge, was insignificant. Purchased interest rate options are used to hedge redeemable deposits and other options embedded in consumer products. Written options are used in the bank's asset/liability management activities when specifically linked to a purchased option in the form of a collar. The amount of the bank's deferred gains and losses associated with non-trading derivatives hedging anticipated transactions was insignificant.

Derivatives – Notional amounts and replacement cost

The following tables provide the notional amounts and gross positive replacement cost of the bank's derivative transactions. Notional amounts, which are off-balance sheet, serve as a point of reference for calculating payments and are a common measure of business volume. The gross replacement cost of derivatives represents the total current replacement value of all outstanding transactions in a gain position, before factoring in the impact of master netting agreements.

Derivative-related credit risk

Credit risk from derivative transactions is generated by the potential for the counterparty to default on its contractual obligations when one or more transactions have a positive market value to the bank. This market value is referred to as replacement cost since it is an estimate of what it would cost to replace transactions at prevailing market rates if a default occurred.

For internal risk management purposes, the credit risk arising from a derivative transaction is defined as the sum of the replacement cost plus an add-on that is an estimate of the potential change in the market value of the transaction through to maturity. The add-on is determined by statistically based models that project the expected volatility of the variable(s) underlying the derivative, whether interest rate, foreign exchange rate, equity or commodity price. Both the replacement cost and the add-on are continually re-evaluated over the life of each transaction to ensure that sound credit risk valuations are used.

Netting is a technique that can reduce credit exposure from derivatives and is generally facilitated through the use of master netting agreements. The two main categories of netting are close-out netting and settlement netting. Under the close-out netting provision, if the counterparty defaults, the bank has the right to terminate all transactions covered by the master agreement at the then-prevailing market values and to sum the resulting market values, offsetting negative against positive values, to arrive at a single net amount owed by either the counterparty or the bank. Under the settlement netting provision, all payments and receipts in the same currency and due on the same day between specified pairs of bank and counterparty units are netted, generating a single payment in each currency, due either by the bank or the counterparty unit. The bank actively encourages counterparties to enter into master netting agreements. However, measurement of the bank's credit exposure arising out of derivative transactions is not reduced to reflect the effects of netting unless the enforceability of that netting is supported by appropriate legal analysis as documented in bank policy.

To further manage derivative-related counterparty credit exposure, the bank enters into agreements containing mark-to-market cap provisions with some counterparties. Under such provisions, the bank has the right to request that the counterparty pay down or collateralize the current market value of its derivatives position with the bank. The use of collateral does not currently represent a significant credit mitigation technique for the bank in managing derivative-related credit risk.

The bank subjects its derivative-related credit risks to the same credit approval, limit and monitoring standards that it uses for managing other transactions that create credit exposure. This includes evaluation of counterparties as to creditworthiness, and managing the size, diversification and maturity structure of the portfolio. Credit utilization for all products is compared with established limits on a continual basis and is subject to a standard exception reporting process. The bank utilizes a single internal rating system for all credit risk exposure. In most cases, these internal ratings approximate the external risk ratings of public rating agencies. The table below shows replacement cost, both before and after the impact of netting, of the bank's derivatives by risk rating and by counterparty type. During 2001 and 2000, neither the bank's actual credit losses arising from derivative transactions nor the level of impaired derivative contracts were significant.

Replacement cost of derivative financial instruments by risk rating and by counterparty type

	Risk rating (1)					Counterparty type (2)			
As at October 31, 2001	AAA, AA	A	BBB	BB or lower	Total	Banks	OECD governments	Other	Total
Gross positive replacement cost (3)	$ 15,558	$ 9,981	$ 2,541	$ 701	$ 28,781	$ 18,770	$ 1,892	$ 8,119	$ 28,781
Impact of master netting agreements	(11,975)	(5,659)	(1,026)	(172)	(18,832)	(15,118)	–	(3,714)	(18,832)
Replacement cost (after netting agreements)	$ 3,583	$ 4,322	$ 1,515	$ 529	$ 9,949	$ 3,652	$ 1,892	$ 4,405	$ 9,949
Replacement cost (after netting agreements) – 2000	$ 4,275	$ 4,110	$ 1,346	$ 334	$ 10,065	$ 4,029	$ 1,846	$ 4,190	$ 10,065

(1) The bank's internal risk ratings for major counterparty types approximate those of public rating agencies. Ratings of AAA, AA, A and BBB represent investment grade ratings and ratings of BB and lower represent non-investment grade ratings.
(2) Counterparty type is defined in accordance with the capital adequacy requirements of the Superintendent of Financial Institutions Canada.
(3) Represents the total current replacement value of all outstanding contracts in a gain position, before factoring in the impact of master netting agreements.

Notional amount of derivatives by term to maturity and replacement cost

	Term to maturity				2001			2000		
	Within 1 year	1 to 5 years	Over 5 years (1)	Total	Trading	Other than trading	Replacement cost (2)	Trading	Other than trading	Replacement cost (2)
Over-the-counter (OTC) contracts										
Interest rate contracts										
Forward rate agreements	$ 16,700	$ 75,053	$ 3,925	$ 95,678	$ 95,678	$ –	$ 108	$ 16,518	$ –	$ 7
Swaps	201,031	359,441	137,430	697,902	628,735	69,167	17,568	477,038	53,614	4,517
Options purchased	6,549	7,838	5,514	19,901	19,787	114	416	31,564	131	168
Options written	10,783	6,570	4,824	22,177	22,177	–	–	32,306	332	–
Foreign exchange contracts										
Forward contracts	511,102	30,982	4,352	546,436	528,467	17,969	6,839	540,790	14,077	10,878
Cross currency swaps	1,064	2,934	4,620	8,618	8,618	–	518	4,836	452	180
Cross currency interest rate swaps	17,391	28,194	20,616	66,201	63,405	2,796	1,384	49,186	8,574	2,456
Options purchased	45,984	3,168	2	49,154	48,542	612	721	47,212	188	934
Options written	50,969	3,127	37	54,133	54,133	–	–	53,275	188	–
Other contracts (3)	16,753	25,549	2,418	44,720	41,122	3,598	1,227	16,415	–	1,423
Exchange-traded contracts										
Interest rate contracts										
Futures – long positions	16,046	4,235	38	20,319	20,319	–	–	14,544	430	–
Futures – short positions	39,089	4,211	19	43,319	43,232	87	–	19,949	800	–
Options purchased	5,615	7,737	–	13,352	13,352	–	–	12,117	–	–
Options written	11,230	849	–	12,079	12,079	–	–	18,909	–	–
Foreign exchange contracts										
Futures – long positions	348	–	–	348	348	–	–	535	–	–
Futures – short positions	144	–	–	144	144	–	–	17	–	–
Other contracts (3)	47,270	10,860	–	58,130	58,130	–	–	49,025	–	–
	$ 998,068	$ 570,748	$ 183,795	$1,752,611	$1,658,268	$ 94,343	28,781	$1,384,236	$ 78,786	20,563
Impact of master netting agreements										
With intent to settle net or simultaneously (4)							(39)			(27)
Without intent to settle net or simultaneously (5)							(18,793)			(10,471)
							$ 9,949			$ 10,065

(1) Includes contracts maturing in over 10 years with a notional value of $19,637 million and related gross positive replacement cost of $950 million.
(2) Represents the total current replacement value of all outstanding contracts in a gain position, before factoring in the impact of master netting agreements. Exchange-traded contracts are excluded from this presentation as the credit risk associated with these instruments is minimal since they are settled in cash on a daily basis. Written options are excluded as they represent obligations of the bank and as such do not attract credit risk.
(3) Comprises precious metals, commodity, equity-linked and credit derivative contracts.
(4) Impact of offsetting credit exposures on contracts where the bank both has a legally enforceable master netting agreement in place and intends to settle the contracts on either a net basis or simultaneously.
(5) Additional impact of offsetting credit exposures on contracts where the bank has a legally enforceable master netting agreement in place but does not intend to settle the contracts on a net basis or simultaneously.

NOTE 17 Concentrations of credit risk

Concentrations of credit risk exist if a number of customers are engaged in similar activities, or are located in the same geographic region or have comparable economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the bank's performance to developments affecting a particular industry or geographic location. Management does not believe that the concentrations described below are unusual.

	2001									2000								
	Canada	%	United States	%	Europe	%	Other countries	%	Total	Canada	%	United States	%	Europe	%	Other countries	%	Total
On-balance sheet assets																		
Total loans (1)	**$164,371**	**76%**	**$ 29,879**	**14%**	**$ 16,724**	**8%**	**$ 6,207**	**2%**	**$217,181**	$153,525	82%	$ 15,939	9%	$ 9,109	5%	$ 7,573	4%	$186,146
Off-balance sheet credit instruments																		
Financial instruments with contractual amounts representing credit risk																		
Committed and uncommitted amounts to extend credit (2)	**$ 76,832**	**56%**	**$ 43,508**	**32%**	**$ 14,465**	**10%**	**$ 3,084**	**2%**	**$137,889**	$ 68,172	49%	$ 46,539	33%	$ 15,940	11%	$ 8,914	7%	$139,565
Other financial instruments	**20,990**	**59**	**9,893**	**28**	**4,436**	**12**	**331**	**1**	**35,650**	20,975	61	10,505	30	2,705	8	417	1	34,602
	$ 97,822	**56%**	**$ 53,401**	**31%**	**$ 18,901**	**11%**	**$ 3,415**	**2%**	**$173,539**	$ 89,147	51%	$ 57,044	33%	$ 18,645	11%	$ 9,331	5%	$174,167
Derivatives before master netting agreements (3)	**$ 6,899**	**24%**	**$ 9,154**	**32%**	**$ 11,741**	**41%**	**$ 987**	**3%**	**$ 28,781**	$ 4,515	22%	$ 5,798	28%	$ 8,618	42%	$ 1,632	8%	$ 20,563

(1) The largest concentrations in Canada are Ontario at 43% (2000 – 39%) and British Columbia at 11% (2000 – 14%). No industry accounts for more than 10% of total loans.
(2) Of the commitments to extend credit, the largest industry concentration relates to financial institutions at 34% (2000 – 37%), mining and energy at 15% (2000 – 13%), transportation at 10% (2000 – 11%) and manufacturing at 10% (2000 – 10%).
(3) Represents replacement cost of which the largest concentration by counterparty type is with banks at 64% (2000 – 61%).

NOTE 18 Estimated fair value of financial instruments

The estimated fair values are designed to approximate values at which these instruments could be exchanged in a current transaction between willing parties. However, many of the financial instruments lack an available trading market and therefore, fair values are based on estimates using net present value and other valuation techniques, which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates, which reflect varying degrees of risk. Furthermore, due to the use of subjective judgment and uncertainties, the aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

The estimated fair values disclosed below do not reflect the value of assets and liabilities that are not considered financial instruments such as "premises and equipment." In addition, the values of other non-financial assets and liabilities, such as intangible values of client relationships, have been excluded.

Financial instruments

	2001			2000		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Financial assets						
Cash resources (1)	**$ 17,535**	**$ 17,535**	**$ –**	$ 16,408	$ 16,408	$ –
Securities (2)	**80,507**	**80,937**	**430**	60,208	60,117	(91)
Loans (3)	**204,980**	**209,133**	**4,153**	172,647	173,552	905
Customers' liability under acceptances (1)	**9,923**	**9,923**	**–**	11,628	11,628	–
Other assets (4)	**37,865**	**37,915**	**50**	25,680	25,788	108
Financial liabilities						
Deposits (5)	**233,447**	**236,196**	**(2,749)**	202,896	204,386	(1,490)
Acceptances (1)	**9,923**	**9,923**	**–**	11,628	11,628	–
Obligations related to securities sold short (1)	**16,443**	**16,443**	**–**	13,419	13,419	–
Obligations related to assets sold under repurchase agreements (1)	**20,864**	**20,864**	**–**	9,005	9,005	–
Other liabilities (4)	**52,117**	**52,117**	**–**	32,723	32,723	–
Subordinated debentures (6)	**6,314**	**6,646**	**(332)**	5,825	5,809	16

(1) Due to their short-term maturity, the carrying values of certain on-balance sheet financial instruments are assumed to approximate their fair values.
(2) The estimated fair values are provided in the Securities note to the consolidated financial statements (note 4). These are based on quoted market prices, when available. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities.
(3) For certain variable rate loans that reprice frequently, fair values are assumed to be equal to the carrying values. The fair values of other loans are estimated through a discounted cash flow calculation that applies market interest rates currently charged for similar new loans to expected maturity amounts.
(4) The carrying values of Other assets and Other liabilities approximate their fair values with the exception of amounts relating to derivative financial instruments held or issued for other than trading purposes. The net fair value over book value for these instruments is shown in Other assets.
(5) The fair values of deposits with no stated maturity are assumed to be equal to their carrying values. The estimated fair values of fixed-rate deposits are determined by discounting the expected cash flows, using market interest rates currently offered for deposits of similar remaining maturities (adjusted for early redemptions where appropriate).
(6) The fair values of the debentures are based on quoted market prices for similar issues, or current rates offered to the bank for debt of the same remaining maturity.

Derivative financial instruments (1)

	2001				2000	
	Average fair value for the year ended (2)		Year-end fair value		Year-end fair value	
	Positive	Negative	Positive	Negative	Positive	Negative
Held or issued for trading purposes						
Interest rate contracts						
Forward rate agreements	$ 33	$ 24	$ 108	$ 79	$ 7	$ 4
Swaps	7,507	8,311	16,211	16,692	3,845	4,574
Options purchased	258	–	416	–	168	–
Options written	–	203	–	325	–	136
	7,798	8,538	16,735	17,096	4,020	4,714
Foreign exchange contracts						
Forward contracts	9,239	8,339	6,800	5,868	10,683	9,722
Cross currency swaps	265	222	518	315	91	125
Cross currency interest rate swaps	1,770	1,718	1,309	1,975	2,164	1,830
Options purchased	779	–	715	–	934	–
Options written	–	731	–	560	–	950
	12,053	11,010	9,342	8,718	13,872	12,627
Other contracts (3)	1,418	1,667	928	2,651	1,423	1,178
	$ 21,269	$ 21,215	27,005	28,465	19,315	18,519
Held or issued for other than trading purposes						
Interest rate contracts						
Swaps			1,357	1,104	672	256
Options written			–	–	–	7
			1,357	1,104	672	263
Foreign exchange contracts						
Forward contracts			39	313	195	310
Cross currency swaps			–	–	89	89
Cross currency interest rate swaps			75	50	292	252
Options purchased			6	–	–	–
			120	363	576	651
Other contracts (3)			299	51	–	–
			1,776	1,518	1,248	914
Total gross fair values before netting			28,781	29,983	20,563	19,433
Impact of master netting agreements						
With intent to settle net or simultaneously (4)			(39)	(39)	(27)	(27)
Without intent to settle net or simultaneously (5)			(18,793)	(18,793)	(10,471)	(10,471)
Total			$ 9,949	$ 11,151	$ 10,065	$ 8,935

(1) The fair values of derivatives are presented on a gross basis before the impact of legally enforceable master netting agreements. The fair values of derivatives are determined using various methodologies including: quoted market prices, where available; prevailing market rates for instruments with similar characteristics and maturities; net present value analysis or other pricing models as appropriate.

(2) Average fair value amounts are calculated based on monthly balances.

(3) Comprises precious metals, commodity, equity-linked and credit derivative contracts.

(4) Impact of offsetting credit exposures on contracts where the bank both has a legally enforceable master netting agreement in place and intends to settle the contracts on either a net basis or simultaneously.

(5) Additional impact of offsetting credit exposures on contracts where the bank has a legally enforceable master netting agreement in place but does not intend to settle the contracts on a net basis or simultaneously.

NOTE 19 Contractual repricing and maturity schedule

The table below details the bank's exposure to interest rate risk as defined and prescribed by the Canadian Institute of Chartered Accountants handbook Section 3860, *Financial Instruments – Disclosure and Presentation*. On- and off-balance sheet financial instruments are reported based on the earlier of their contractual repricing date or maturity date. Effective interest rates have been disclosed where applicable. The effective rates shown represent historical rates for fixed-rate instruments carried at amortized cost and current market rates for floating-rate instruments or instruments carried at fair value.

The table below does not incorporate management's expectation of future events where expected repricing or maturity dates differ significantly from the contractual dates. The bank incorporates these assumptions in the management of its interest rate risk exposure. These assumptions include expected repricing of trading instruments and certain loans and deposits. Taking into account these assumptions on the consolidated contractual repricing and maturity schedule at October 31, 2001, would result in a change in the under-one-year gap from ($35.3) billion to ($19.1) billion (2000 – ($27.8) billion to ($12.1) billion).

Carrying amount by earlier of contractual repricing or maturity date

	Immediately rate-sensitive	Under 3 months	3 to 6 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years	Non-interest-sensitive	Total
Assets								
Cash resources	$ –	$ 11,260	$ 2,376	$ 2,762	$ 119	$ –	$ 1,018	$ 17,535
Effective interest rate		4.19%	3.11%	3.42%	2.61%			
Securities								
Trading account	–	15,848	5,210	5,621	8,353	7,735	15,425	58,192
Effective interest rate		2.50%	2.47%	3.04%	4.05%	5.17%		
Investment account and loan substitute	–	4,066	1,764	4,141	8,195	2,564	1,585	22,315
Effective interest rate		2.88%	3.23%	4.21%	4.51%	5.62%		
Loans	38,786	78,427	9,312	14,099	59,275	4,894	187	204,980
Effective interest rate		3.93%	5.27%	5.87%	6.61%	6.84%		
Other assets	–	–	–	–	–	–	56,238	56,238
	38,786	109,601	18,662	26,623	75,942	15,193	74,453	359,260
Liabilities								
Deposits	64,837	106,175	16,753	19,651	24,022	1,978	31	233,447
Effective interest rate		2.56%	3.63%	3.75%	5.03%	5.41%		
Obligations related to securities sold short	–	664	288	706	4,594	6,136	4,055	16,443
Effective interest rate		2.58%	4.98%	2.69%	3.69%	5.33%		
Obligations related to assets sold under repurchase agreements	–	19,509	734	464	50	–	107	20,864
Effective interest rate		2.62%	2.35%	2.63%	3.69%			
Other liabilities	–	–	–	–	–	–	62,548	62,548
Effective interest rate								
Subordinated debentures	–	767	60	400	2,400	2,687	–	6,314
Effective interest rate		3.10%	10.50%	5.40%	6.02%	6.86%		
Non-controlling interest in subsidiaries	–	–	–	–	–	1,400	79	1,479
Effective interest rate						7.23%		
Shareholders' equity	150	–	–	–	700	300	17,015	18,165
Effective interest rate					6.40%	5.89%		
	64,987	127,115	17,835	21,221	31,766	12,501	83,835	359,260
On-balance sheet gap	(26,201)	(17,514)	827	5,402	44,176	2,692	(9,382)	–
Off-balance sheet financial instruments (1)								
Derivatives used for asset liability management purposes								
Pay side instruments	–	(33,271)	(1,481)	(3,091)	(22,409)	(4,011)	–	(64,263)
Effective interest rate		3.56%	6.58%	5.70%	5.60%	5.94%		
Receive side instruments	–	35,815	3,056	4,513	13,805	7,074	–	64,263
Effective interest rate		4.09%	5.34%	4.88%	5.57%	6.13%		
Derivatives used for trading purposes	–	22,574	(14,223)	(11,744)	7,124	1,928	(5,659)	–
Effective interest rate		2.61%	2.35%	2.36%	3.69%	5.29%		
	–	25,118	(12,648)	(10,322)	(1,480)	4,991	(5,659)	–
Total gap	$ (26,201)	$ 7,604	$ (11,821)	$ (4,920)	$ 42,696	$ 7,683	$ (15,041)	$ –
Canadian dollar	(8,064)	(786)	(7,292)	(4,784)	38,156	1,759	(24,598)	(5,609)
Foreign currency	(18,137)	8,390	(4,529)	(136)	4,540	5,924	9,557	5,609
Total gap	$ (26,201)	$ 7,604	$ (11,821)	$ (4,920)	$ 42,696	$ 7,683	$ (15,041)	$ –
Canadian dollar – 2000	(18,165)	(1,998)	4,484	(636)	32,951	2,649	(14,437)	4,848
Foreign currency – 2000	(12,620)	15,191	(5,635)	(8,436)	1,431	1,512	3,709	(4,848)
Total gap – 2000	$ (30,785)	$ 13,193	$ (1,151)	$ (9,072)	$ 34,382	$ 4,161	$ (10,728)	$ –

(1) Represents net notional amounts.

NOTE 20 Reconciliation of Canadian and United States generally accepted accounting principles

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP), including the accounting requirements of the Superintendent of Financial Institutions Canada. As required by the United States Securities and Exchange Commission, material differences between Canadian and United States GAAP are described below.

Summary of reconciliation to U.S. GAAP

	2001			2000			1999		
	Net income	Shareholders' equity	Assets	Net income	Shareholders' equity	Assets	Net income	Shareholders' equity	Assets
Canadian GAAP	**$ 2,411**	**$ 18,165**	**$ 359,260**	$ 2,274	$ 13,541	$ 289,740	$ 1,757	$ 12,615	$ 270,650
Derivative instruments and hedging activities (1)	**(1)**	**(191)**	**1,235**	–	–	–	–	–	–
Reclassification of securities (2)	**–**	**199**	**199**	–	(56)	(46)	–	(85)	(85)
Postretirement benefits other than pensions (3)	**–**	**–**	**–**	(35)	(163)	123	(37)	(128)	97
Pension benefits (3)	**–**	**–**	**–**	–	(27)	(27)	(6)	(27)	(27)
Trade date accounting (4)	**–**	**–**	**(1,464)**	–	–	419	–	–	2,327
Merger consummation costs (5)	**–**	**–**	**–**	–	–	–	14	–	–
Insurance accounting (6)	**41**	**19**	**1,290**	(29)	(13)	416	16	16	283
Additional pension obligation (7)	**–**	**(17)**	**12**	–	–	–	–	–	–
Substantively enacted tax rate change (8)	**(16)**	**–**	**–**	16	16	16	–	–	–
Other (9)	**–**	**30**	**1,951**	(18)	(1)	3,413	(19)	17	53
U.S. GAAP	**$ 2,435**	**$ 18,205**	**$ 362,483**	$ 2,208	$ 13,297	$ 294,054	$ 1,725	$ 12,408	$ 273,298
Earnings per share	**$ 3.58**			$ 3.42			$ 2.50		
Diluted earnings per share	**$ 3.55**			$ 3.40			$ 2.48		

(1) Under U.S. GAAP, all derivatives are recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded in Net income, or if the derivative is designated and to the extent it functions effectively as a cash flow hedge, in Other comprehensive income within Shareholders' equity. For derivatives designated as fair value hedges, the changes recorded in Net income are generally offset by changes in the fair value of the hedged item attributable to the risk being hedged. The changes recorded in Other comprehensive income are subsequently reclassified to Net income to offset the effects of variability in cash flows of the hedged item. Under Canadian GAAP, only derivatives used in sales and trading activities are recorded on the balance sheet at fair value. Recording derivatives and hedging activities in accordance with U.S. GAAP would decrease Net income by $1 million for the year ended October 31, 2001, increase Securities by $53 million, Other assets by $1,412 million, Deposits by $344 million, Other liabilities by $734 million and Subordinated debentures by $348 million, and decrease Cash resources by $19 million, Loans by $211 million and Shareholders' equity by $191 million as at October 31, 2001.

(2) Under U.S. GAAP, Securities are classified as Trading account (carried at estimated current market value), Available for sale (carried at estimated current market value) or Held to maturity (carried at amortized cost). The net unrealized gain (loss) on Available for sale securities, net of related income taxes, is reported as Other comprehensive income within Shareholders' equity except where the changes in market value are effectively hedged by derivatives. These hedged unrealized gains (losses) are recorded in Net income, where they are generally offset by the changes in fair value of the hedging derivatives. Under Canadian GAAP, Securities are classified as Investment account (carried at amortized cost) or Trading account (carried at estimated current market value). Classifying Securities in accordance with U.S. GAAP would increase Securities by $339 million, decrease the related deferred income taxes included in Other assets by $140 million, and increase Shareholders' equity by $199 million as at October 31, 2001.

(3) The bank adopted the new accounting standard issued by the CICA for *Employee Future Benefits* which requires the bank to accrue the costs of all postretirement benefits over the working lives of employees instead of the previous method of expensing costs when paid. The new standard also requires a change to the discount rate used to value future benefit obligations from an estimated long-term rate to a market-based interest rate. As a result of adopting this new standard on November 1, 2000, there are no longer differences between Canadian and U.S. GAAP related to employee future benefits accounting except as noted in footnote (7).

(4) Under U.S. GAAP, trade date accounting for Securities is used for both the consolidated balance sheet and the consolidated statement of income. The bank's practice under Canadian GAAP is settlement date accounting for the consolidated balance sheet and trade date accounting for the consolidated statement of income. The application of trade date accounting to the bank's consolidated balance sheet would decrease Securities by $1,611 million and Other liabilities by $1,464 million, and increase Other assets by $147 million as at October 31, 2001.

(5) Under U.S. GAAP, costs incurred to effect a business combination accounted for as a pooling of interests are expensed as incurred. As a result, merger consummation costs of $24 million incurred in 1998 to effect the proposed merger with Bank of Montreal would be charged to income in 1998 under U.S. GAAP. Under Canadian GAAP, these costs were deferred as Other assets, and were to be charged directly to Retained earnings when the merger was consummated. Following the rejection of the proposed merger by the Minister of Finance in December 1998, the deferred costs amounting to $24 million plus additional costs of $12 million were charged to income in 1999 under Canadian GAAP. The $36 million charged to income under Canadian GAAP exceeded, by $24 million, the $12 million that would be charged to income under U.S. GAAP in 1999. This would result in Net income under U.S. GAAP being $14 million higher for the year ended October 31, 1999.

(6) There are differences between U.S. and Canadian GAAP with respect to life insurance premiums, investment accounting and actuarial reserving. These lead to timing differences in the charging or releasing of actuarial reserves to income and in the recognition of gains and losses on investments. The application of U.S. GAAP to the bank's insurance operations would increase Net income by $41 million for the year ended October 31, 2001. Also, excluding the effects of reclassification of Securities which are included in footnote (2) above, Other assets and Other liabilities would increase by $1,326 million and $1,271 million respectively, the related Deferred income taxes would decrease Other assets by $36 million and Shareholders' equity would increase by $19 million as at October 31, 2001.

(7) For defined benefit pension plans, U.S. GAAP requires that the excess of the unfunded accumulated benefit obligation over the unrecognized prior service cost be recorded in Other comprehensive income. Recognition of this additional pension obligation would increase Other liabilities by $29 million, the related deferred income taxes would increase Other assets by $12 million and Shareholders' equity would decrease by $17 million as at October 31, 2001.

(8) Under U.S. GAAP, the effects of changes in tax rates on deferred income taxes are recorded when the tax rate change has been passed into law. Under Canadian GAAP, these effects are recorded when the tax rate change has been substantively enacted. The reductions in the corporate tax rate announced during calendar year 2000 and considered substantively enacted then, have been passed into law. Adjusting for the effects of their enactment in accordance with U.S. GAAP would reduce Net income by $16 million for the year ended October 31, 2001.

(9) Other differences between U.S. and Canadian GAAP relate to the right of offset, accounting for joint ventures and other minor items. Investments in joint ventures are proportionately consolidated under Canadian GAAP and accounted for under the equity method under U.S. GAAP. Accounting for joint ventures in accordance with U.S. GAAP would not affect Net income. The net of these items would increase Shareholders' equity by $30 million, Assets by $1,951 million and Liabilities by $1,921 million as at October 31, 2001.

Consolidated balance sheet

As at October 31 ($ millions)	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Assets											
Cash resources	**$ 17,535**	$ 16,408	$ 23,042	$ 16,395	$ 21,392	$ 23,567	$ 17,710	$ 16,449	$ 10,874	$ 10,938	$ 8,820
Securities	**80,507**	60,208	50,559	41,399	33,037	43,490	32,705	27,695	24,011	16,146	13,436
Loans											
Residential mortgage	**67,442**	62,984	59,242	57,069	53,369	48,120	45,131	44,109	43,781	32,609	29,105
Personal	**32,511**	28,019	25,255	22,761	20,864	18,440	16,923	16,508	16,487	15,462	14,775
Credit card	**4,283**	4,666	2,666	1,945	2,324	3,522	3,435	3,321	3,090	2,532	2,571
Business and government	**67,152**	60,546	57,676	65,598	62,837	56,138	51,500	48,748	52,062	52,502	53,251
Reverse repurchase agreements	**35,870**	18,303	20,272	19,907	18,642	11,446	4,591	5,259	5,304	607	600
	207,258	174,518	165,111	167,280	158,036	137,666	121,580	117,945	120,724	103,712	100,302
Allowance for loan losses	**(2,278)**	(1,871)	(1,884)	(2,026)	(1,769)	(1,875)	(2,003)	(2,559)	(4,255)	(3,575)	(1,958)
	204,980	172,647	163,227	165,254	156,267	135,791	119,577	115,386	116,469	100,137	98,344
Other											
Derivative-related amounts (1)	**27,240**	19,155	15,151	30,413	14,776	12,994	12,378	–	–	–	–
Acceptances	**9,923**	11,628	9,257	10,620	10,561	7,423	6,300	6,205	6,302	5,737	7,210
Premises and equipment	**1,602**	1,249	1,320	1,872	1,696	1,785	1,870	1,975	2,057	1,914	1,921
Other assets	**17,473**	8,445	8,094	8,446	7,045	6,448	5,490	5,369	5,228	3,421	2,621
	56,238	40,477	33,822	51,351	34,078	28,650	26,038	13,549	13,587	11,072	11,752
	$ 359,260	$ 289,740	$ 270,650	$ 274,399	$ 244,774	$ 231,498	$ 196,030	$ 173,079	$ 164,941	$ 138,293	$ 132,352
Liabilities and shareholders' equity											
Deposits											
Personal	**$ 101,381**	$ 89,632	$ 87,359	$ 85,910	$ 86,106	$ 90,774	$ 89,929	$ 85,214	$ 84,696	$ 67,648	$ 64,332
Business and government	**107,141**	93,618	86,223	76,107	64,368	47,799	39,900	36,422	33,781	30,245	29,740
Bank	**24,925**	19,646	14,315	17,988	22,755	23,244	13,662	14,179	11,922	14,329	10,950
	233,447	202,896	187,897	180,005	173,229	161,817	143,491	135,815	130,399	112,222	105,022
Other											
Acceptances	**9,923**	11,628	9,257	10,620	10,561	7,423	6,300	6,205	6,302	5,737	7,210
Securities sold short	**16,443**	13,419	17,885	14,404	11,152	8,331	7,128	5,569	5,362	3,628	2,650
Repurchase agreements	**20,864**	9,005	9,396	11,264	9,458	16,526	4,090	5,341	2,533	787	641
Derivative-related amounts (1)	**28,646**	18,574	15,219	29,370	14,732	13,449	12,384	–	–	–	–
Other liabilities	**23,979**	14,149	13,682	12,258	10,494	10,828	9,970	7,986	8,919	5,232	5,913
	99,855	66,775	65,439	77,916	56,397	56,557	39,872	25,101	23,116	15,384	16,414
Subordinated debentures	**6,314**	5,825	4,596	4,087	4,227	3,602	3,528	3,481	3,410	3,106	3,081
Non-controlling interest in subsidiaries	**1,479**	703	103	499	531	108	107	93	86	75	73
Shareholders' equity											
Capital stock											
Preferred	**2,024**	2,037	2,009	2,144	1,784	1,752	1,990	2,266	2,248	1,594	1,661
Common	**6,973**	3,076	3,065	2,925	2,907	2,876	2,910	2,910	2,910	2,910	2,726
Retained earnings	**9,168**	8,428	7,541	6,823	5,699	4,786	4,132	3,413	2,772	3,002	3,375
	18,165	13,541	12,615	11,892	10,390	9,414	9,032	8,589	7,930	7,506	7,762
	$ 359,260	$ 289,740	$ 270,650	$ 274,399	$244,774	$ 231,498	$ 196,030	$ 173,079	$ 164,941	$ 138,293	$ 132,352

(1) As the information is not reasonably determinable, amounts for years prior to 1995 have not been restated to reflect the presentation of derivative-related amounts on a gross basis.

Consolidated statement of income

For the year ended October 31 ($ millions, except per share amounts)	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Interest income											
Loans	**$ 13,195**	$ 12,616	$ 11,287	$ 11,643	$ 9,922	$ 9,856	$ 10,057	$ 8,899	$ 8,247	$ 8,957	$ 10,670
Securities	**3,281**	2,669	2,190	1,914	2,166	2,461	2,179	1,654	1,320	1,037	921
Deposits with banks	**831**	824	726	750	983	891	792	454	296	396	588
	17,307	16,109	14,203	14,307	13,071	13,208	13,028	11,007	9,863	10,390	12,179
Interest expense											
Deposits	**8,712**	9,057	7,636	7,732	6,548	7,115	7,362	5,477	4,995	5,868	7,940
Other liabilities	**1,673**	1,429	1,161	1,172	1,139	1,126	792	761	567	322	209
Subordinated debentures	**405**	344	286	339	384	322	335	290	263	272	271
	10,790	10,830	9,083	9,243	8,071	8,563	8,489	6,528	5,825	6,462	8,420
Net interest income	**6,517**	5,279	5,120	5,064	5,000	4,645	4,539	4,479	4,038	3,928	3,759
Other income											
Capital market fees	**1,870**	1,810	1,209	1,118	1,172	764	434	567	456	356	258
Trading revenues	**1,820**	1,540	1,106	748	606	368	362	345	414	387	238
Investment management and custodial fees	**895**	684	547	495	404	319	286	278	101	82	69
Deposit and payment service charges	**887**	756	688	664	690	701	681	661	649	654	601
Mutual fund revenues	**546**	528	479	447	354	241	190	202	64	37	16
Card service revenues	**458**	420	362	305	332	282	278	258	203	183	197
Foreign exchange revenues, other than trading	**312**	299	243	218	211	165	140	134	107	115	101
Credit fees	**237**	212	189	183	169	153	156	156	152	152	162
Insurance revenues	**201**	191	161	113	102	70	104	100	61	32	31
Securitization revenues	**123**	115	222	218	–	–	–	–	–	–	–
Gain (loss) on sale of securities	**(128)**	(11)	28	343	37	107	17	49	169	14	11
Other	**994**	188	246	133	202	96	90	113	75	90	274
	8,215	6,732	5,480	4,985	4,279	3,266	2,738	2,863	2,451	2,102	1,958
Gross revenues	**14,732**	12,011	10,600	10,049	9,279	7,911	7,277	7,342	6,489	6,030	5,717
Provision for credit losses	**1,119**	691	760	575	380	440	580	820	1,750	2,050	605
	13,613	11,320	9,840	9,474	8,899	7,471	6,697	6,522	4,739	3,980	5,112
Non-interest expenses											
Human resources	**5,723**	4,651	4,013	3,594	3,365	2,851	2,563	2,675	2,386	2,170	2,072
Occupancy	**724**	570	564	508	559	507	473	500	593	476	394
Equipment	**771**	665	677	585	605	492	506	460	473	382	335
Communications	**686**	695	699	665	587	523	461	450	377	372	372
Professional fees	**412**	267	298	262	228	165	147	113	86	88	74
Amortization of goodwill and other intangibles	**284**	87	66	62	59	38	38	48	35	19	18
Other	**1,155**	646	743	723	650	536	469	415	465	410	353
	9,755	7,581	7,060	6,399	6,053	5,112	4,657	4,661	4,415	3,917	3,618
Net income before income taxes	**3,858**	3,739	2,780	3,075	2,846	2,359	2,040	1,861	324	63	1,494
Income taxes	**1,340**	1,445	1,015	1,175	1,090	880	755	655	(5)	(65)	495
Net income before non-controlling interest	**2,518**	2,294	1,765	1,900	1,756	1,479	1,285	1,206	329	128	999
Non-controlling interest	**107**	20	8	76	77	49	23	37	29	21	16
Net income	**$ 2,411**	$ 2,274	$ 1,757	$ 1,824	$ 1,679	$ 1,430	$ 1,262	$ 1,169	$ 300	$ 107	$ 983
Preferred share dividends	**135**	134	157	145	131	144	164	168	154	123	103
Net income available to common shareholders	**$ 2,276**	$ 2,140	$ 1,600	$ 1,679	$ 1,548	$ 1,286	$ 1,098	$ 1,001	$ 146	$ (16)	$ 880
Earnings per share (loss)											
Basic	**$ 3.55**	$ 3.53	$ 2.55	$ 2.72	$ 2.50	$ 2.05	$ 1.75	$ 1.60	$ 0.23	$ (0.03)	$ 1.46
Diluted	**3.52**	3.51	2.53	2.67	2.46	2.05	1.75	1.60	0.23	(0.03)	1.45

Consolidated statement of changes in shareholders' equity

For the year ended October 31 ($ millions)	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Preferred shares											
Balance at beginning of year	$ 2,037	$ 2,009	$ 2,144	$ 1,784	$ 1,752	$ 1,990	$ 2,266	$ 2,248	$ 1,594	$ 1,661	$ 1,146
Issued	250	–	296	300	–	–	–	–	612	–	526
Redeemed for cancellation	(300)	–	(400)	–	–	(237)	(272)	–	–	(102)	(5)
Translation adjustment	37	28	(31)	60	32	(1)	(4)	18	42	35	(6)
Balance at end of year	2,024	2,037	2,009	2,144	1,784	1,752	1,990	2,266	2,248	1,594	1,661
Common shares											
Balance at beginning of year	3,076	3,065	2,925	2,907	2,876	2,910	2,910	2,910	2,910	2,726	2,450
Issued	4,009	109	192	18	69	–	–	–	–	184	276
Purchased for cancellation	(112)	(98)	(52)	–	(38)	(34)	–	–	–	–	–
Balance at end of year	6,973	3,076	3,065	2,925	2,907	2,876	2,910	2,910	2,910	2,910	2,726
Retained earnings											
Balance at beginning of year (1)	8,428	7,541	6,823	5,699	4,786	4,057	3,413	2,772	3,002	3,375	2,858
Net income	2,411	2,274	1,757	1,824	1,679	1,430	1,262	1,169	300	107	983
Dividends – preferred	(135)	(134)	(157)	(145)	(131)	(144)	(164)	(168)	(154)	(123)	(103)
common	(897)	(689)	(588)	(543)	(469)	(418)	(371)	(364)	(364)	(361)	(352)
Cumulative effect of initial adoption of *Employee Future Benefits* accounting standard (2)	(221)	–	–	–	–	–	–	–	–	–	–
Premium paid on common shares purchased	(397)	(562)	(281)	–	(160)	(136)	–	–	–	–	–
Issuance costs (2)	(19)	(4)	(9)	(7)	–	–	–	–	(11)	–	(8)
Unrealized foreign currency translation gains and losses (2)	(2)	2	(4)	(5)	(6)	(3)	(8)	4	(1)	4	(3)
Balance at end of year	9,168	8,428	7,541	6,823	5,699	4,786	4,132	3,413	2,772	3,002	3,375
Shareholders' equity at end of year	$ 18,165	$ 13,541	$ 12,615	$ 11,892	$ 10,390	$ 9,414	$ 9,032	$ 8,589	$ 7,930	$ 7,506	$ 7,762

(1) Retained earnings at the beginning of 1996 was reduced by $75 million as a result of the adoption of the *Impaired Loans* accounting standard.
(2) Net of related income taxes.

Risk profile

As at October 31 ($ millions, except percentage amounts)	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Gross impaired loans											
Beginning of year	$ 1,678	$ 1,704	$ 2,001	$ 1,819	$ 2,376	$ 2,944	$ 4,424	$ 7,582	$ 7,056	$ 3,924	$ 4,203
Net additions (reductions)	1,912	813	743	628	81	384	(255)	(1,128)	1,643	3,639	909
Write-offs and adjustments	(1,125)	(839)	(1,040)	(446)	(638)	(952)	(1,225)	(2,030)	(1,117)	(507)	(1,188)
End of year	$ 2,465	$ 1,678	$ 1,704	$ 2,001	$ 1,819	$ 2,376	$ 2,944	$ 4,424	$ 7,582	$ 7,056	$ 3,924
As a % of loans (including reverse repos) and acceptances	1.1%	.9%	1.0%	1.1%	1.1%	1.6%	2.3%	3.6%	6.0%	6.4%	3.7%
Allowance for credit losses											
Specific	$ 951	$ 747	$ 786	$ 1,176	$ 932	$ 1,091	$ 1,439	$ 1,962	$ 2,667	$ 1,867	$ 449
Country risk	31	28	34	40	436	444	930	940	1,107	1,383	1,509
General allowance (1)											
General allocated (1)	1,185	863	790	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
General unallocated (1)	225	337	290	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total general allowance (1)	1,410	1,200	1,080	850	750	700	300	300	550	325	–
Total	$ 2,392	$ 1,975	$ 1,900	$ 2,066	$ 2,118	$ 2,235	$ 2,669	$ 3,202	$ 4,324	$ 3,575	$ 1,958
Composition of allowance											
Allowance for loan losses	$ 2,278	$ 1,871	$ 1,884	$ 2,026	$ 1,769	$ 1,875	$ 2,003	$ 2,559	$ 4,255	$ 3,575	$ 1,958
Allowance for off-balance sheet and other items (2)	109	98	–	–	–	–	–	–	–	–	–
Allowance for loan substitute securities	5	6	16	40	30	34	–	–	–	–	–
Allowance for country risk securities	–	–	–	–	319	326	666	643	69	–	–
Total	$ 2,392	$ 1,975	$ 1,900	$ 2,066	$ 2,118	$ 2,235	$ 2,669	$ 3,202	$ 4,324	$ 3,575	$ 1,958
Allowance for loan losses as a % of loans (including reverse repos) and acceptances	1.1%	1.0%	1.1%	1.2%	1.1%	1.3%	1.6%	2.1%	3.5%	3.4%	1.9%
Allowance for loan losses as a % of gross impaired loans, excluding LDCs	93	112	112	103	94	77	60	52	52	41	18
Net impaired loans	$ 182	$ (199)	$ (196)	$ (65)	$ 103	$ 524	$ 1,148	$ 2,093	$ 3,258	$ 3,481	$ 2,016
As a % of loans (including reverse repos) and acceptances	.1%	(.1)%	(.1)%	–%	.1%	.4%	.9%	1.7%	2.7%	3.3%	1.9%
Provision for credit losses											
Specific	$ 1,049	$ 571	$ 530	$ 555	$ 330	$ 340	$ 580	$ 1,070	$ 1,775	$ 2,025	$ 705
Country risk		–	–	(80)	–	(300)	–	–	(250)	(300)	(100)
General provision (3)											
General allocated (3)	205	73	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
General unallocated (3)	(135)	47	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total general provision	70	120	230	100	50	400	–	(250)	225	325	–
Total	$ 1,119	$ 691	$ 760	$ 575	$ 380	$ 440	$ 580	$ 820	$ 1,750	$ 2,050	$ 605
Specific provisions as a % of average loans (including reverse repos) and acceptances	.53%	.32%	.30%	.31%	.21%	.26%	.48%	.88%	1.64%	1.90%	.67%
Provision as a % of average loans (including reverse repos) and acceptances	.56	.38	.43	.32	.25	.34	.48	.67	1.61	1.93	.57
Net write-offs	$ 940	$ 677	$ 958	$ 692	$ 528	$ 1,001	$ 1,105	$ 1,979	$ 1,187	$ 547	$ 1,010
As a % of average loans and acceptances	.47%	.38%	.55%	.39%	.34%	.77%	.91%	1.63%	1.09%	.51%	.96%

(1) The general allowance was not separated into allocated and unallocated components prior to October 31, 1999.
(2) During 2000, the allowance for off-balance sheet and other items has been separated and reported under other liabilities. Previously, the amount was included in the allowance for loan losses.
(3) The general provision was not separated into allocated and unallocated components prior to November 1, 1999.

Financial highlights

($ millions, taxable equivalent basis, except per share and percentage amounts)	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Performance ratios											
Return on common equity	**16.4%**	19.8%	15.6%	18.4%	19.3%	17.6%	16.6%	16.8%	2.4%	(.3)%	15.5%
Cash return on common equity (1)	**18.5**	20.6	16.2	19.1	20.1	18.1	17.1	17.6	3.0	–	15.8
Return on assets	**.74**	.81	.65	.70	.70	.70	.69	.70	.21	.08	.76
Return on assets after preferred dividends	**.70**	.76	.59	.64	.65	.63	.60	.60	.10	(.01)	.68
Net interest margin (2)	**2.00**	1.88	1.91	1.95	2.10	2.28	2.49	2.72	2.88	2.93	2.95
Other income as a % of gross revenues	**55.6**	55.9	51.5	49.4	46.0	41.1	37.4	38.7	37.4	34.5	33.8
Average balances and year-end off-balance sheet data											
Averages											
Assets (3)	**$ 327,100**	$ 281,900	$ 269,900	$ 261,300	$ 239,500	$ 204,900	$ 183,800	$ 166,700	$ 142,500	$ 136,200	$ 130,100
Loans and acceptances	**199,787**	179,800	175,654	177,984	154,412	130,378	121,459	121,741	108,562	106,376	105,231
Deposits	**218,425**	193,762	184,796	178,688	166,249	147,391	136,686	133,550	114,835	108,609	102,847
Common equity	**13,843**	10,814	10,264	9,107	8,003	7,320	6,627	5,964	6,052	6,313	5,693
Total equity	**15,916**	12,789	12,475	11,078	9,744	9,265	8,820	8,233	8,116	7,938	6,913
Assets under administration (4)	**1,337,700**	1,175,200	967,800	829,200	783,300	522,100	407,700	346,800	274,300		
Assets under management (4)	**104,800**	92,300	81,600	73,400	67,700	51,200	40,400	39,100	33,100		
Capital ratios											
Tier 1 capital	**$ 14,851**	$ 13,567	$ 12,026	$ 11,593	$ 10,073	$ 9,037	$ 8,421	$ 7,660	$ 6,910	$ 6,740	$ 6,938
Total capital	**20,171**	19,044	16,698	16,480	14,705	12,069	11,913	11,525	10,941	10,483	10,686
Total risk-adjusted assets	**171,047**	158,364	149,078	157,064	147,672	128,163	121,350	120,158	117,043	114,298	113,975
Common equity to risk-adjusted assets	**9.4%**	7.3%	7.1%	6.2%	5.8%	6.0%	5.8%	5.3%	4.9%	5.2%	5.4%
Tier 1 capital ratio	**8.7**	8.6	8.1	7.4	6.8	7.0	6.9	6.4	5.9	5.9	6.1
Total capital ratio	**11.8**	12.0	11.2	10.5	10.0	9.4	9.8	9.6	9.3	9.2	9.4
Common share information											
Shares outstanding (in thousands)											
End of year	**674,021**	602,398	617,768	617,581	616,671	621,059	628,310	628,310	628,310	628,310	612,920
Average basic	**641,516**	606,389	626,158	617,324	617,812	628,242	628,310	628,310	628,310	621,086	603,614
Average diluted	**647,216**	609,865	632,305	633,626	632,052	628,624	628,310	628,310	628,310	621,086	606,530
Dividends per share	**$ 1.38**	$ 1.14	$ 0.94	$ 0.88	$ 0.76	$ 0.67	$ 0.59	$ 0.58	$ 0.58	$ 0.58	$ 0.58
Book value per share	**23.95**	19.10	17.17	15.78	13.96	12.34	11.21	10.07	9.05	9.41	9.96
Share price – High (5)	**53.25**	48.88	42.13	46.10	38.23	22.20	15.69	15.94	14.44	14.50	13.75
Low (5)	**41.60**	27.25	29.65	28.75	22.00	14.88	12.94	12.57	11.00	10.75	10.25
Close	**46.80**	48.30	31.73	35.55	37.68	22.15	15.07	14.19	13.63	12.07	13.50
Price/earnings multiple (6)	**13.5**	11.0	14.3	14.1	12.3	9.1	8.2	8.9	–	–	8.2
Dividend yield (7)	**2.9%**	3.0%	2.6%	2.4%	2.5%	3.6%	4.1%	4.1%	4.6%	4.6%	4.8%
Dividend payout ratio (8)	**39**	32	37	32	30	33	34	36	–	–	40
Number of:											
Employees (9)	**57,568**	49,232	51,891	51,776	48,816	46,205	49,011	49,208	52,745	49,628	50,547
Automated banking machines	**4,548**	4,517	4,585	4,317	4,248	4,215	4,079	3,948	3,981	3,828	3,651
Service delivery units											
Canada	**1,317**	1,333	1,410	1,422	1,453	1,493	1,577	1,596	1,731	1,661	1,645
International (10)	**724**	306	99	106	105	103	105	97	95	83	102

(1) Cash return on common equity is computed by adding back to net income the after-tax amount of amortization of goodwill and other intangibles.
(2) Net interest income as a percentage of average assets.
(3) As the information is not reasonably determinable, amounts for years prior to 1995 have not been restated to reflect the presentation of derivative-related amounts on a gross basis.
(4) Amounts prior to 1996 are as at September 30. Assets under administration and assets under management balances were not reported prior to 1993.
(5) Intraday high and low share prices.
(6) Average of high and low Common Share price divided by diluted earnings per share. The multiples for 1993 and 1992 are not meaningful.
(7) Dividends per Common Share divided by the average of high and low share price.
(8) Common dividends as a percentage of net income after preferred dividends. The ratios for 1993 and 1992 are not meaningful.
(9) On a full-time equivalent basis.
(10) International service delivery units include branches, specialized business centres, representative offices and agencies.

Quarterly highlights

	2001				2000			
($ millions, taxable equivalent basis, except per share and percentage amounts)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Statement of income								
Net interest income	$ 1,784	$ 1,719	$ 1,580	$ 1,466	$ 1,381	$ 1,300	$ 1,346	$ 1,280
Other income	2,255	2,008	1,924	2,028	1,753	1,717	1,724	1,538
Provision for credit losses	(425)	(236)	(210)	(248)	(174)	(172)	(172)	(173)
Non-interest expenses	(2,668)	(2,638)	(2,287)	(2,162)	(2,020)	(1,902)	(1,900)	(1,759)
Income taxes	(262)	(333)	(376)	(401)	(331)	(367)	(418)	(357)
Non-controlling interest	(28)	(28)	(29)	(22)	(14)	(2)	(2)	(2)
Net income	$ 656	$ 492	$ 602	$ 661	$ 595	$ 574	$ 578	$ 527
Cash net income (1)	$ 778	$ 573	$ 651	$ 691	$ 620	$ 596	$ 598	$ 544
Core cash net income (1)	$ 539	$ 660	$ 651	$ 613	$ 620	$ 596	$ 598	$ 544
Earnings per share (2)								
Basic	$ .92	$ .69	$ .92	$ 1.03	$ .93	$ .90	$ .89	$ .81
Diluted	.91	.68	.92	1.02	.93	.89	.89	.80
Cash diluted (1)	1.09	.81	1.00	1.07	.97	.93	.92	.83
Core cash diluted (1)	.74	.94	1.00	.95	.97	.93	.92	.83
Performance ratios								
Return on common equity	15.2%	12.5%	18.7%	20.8%	20.0%	19.7%	20.8%	18.7%
Cash return on common equity (1)	18.1	14.7	20.3	21.7	20.9	20.6	21.5	19.3
Core cash return on common equity (1)	12.3	17.1	20.3	19.2	20.9	20.6	21.5	19.3
Return on assets	.76	.58	.77	.86	.81	.81	.84	.76
Return on assets after preferred dividends	.72	.53	.72	.82	.77	.76	.80	.71
Net interest margin (3)	2.07	2.01	2.01	1.91	1.89	1.83	1.96	1.85
Other income as a % of gross revenues	55.8	53.9	54.9	58.0	55.9	56.9	56.2	54.6
Balance sheet								
Assets								
Cash resources and securities	$ 98,042	$ 93,569	$ 86,075	$ 80,712	$ 76,616	$ 75,940	$ 69,360	$ 71,038
Residential mortgages	67,442	66,497	64,557	63,418	62,984	62,588	60,999	60,035
Personal loans	32,511	32,264	29,713	30,573	28,019	27,220	26,802	26,213
Credit card loans	4,283	4,128	4,862	4,961	4,666	4,224	3,270	2,690
Business and government loans	67,152	65,309	60,053	60,273	60,546	58,244	60,834	59,629
Assets purchased under reverse repurchase agreements	35,870	25,101	26,453	21,713	18,303	15,100	19,419	15,284
Allowance for loan losses	(2,278)	(2,173)	(1,951)	(1,947)	(1,871)	(1,845)	(1,869)	(1,937)
Other assets	56,238	45,279	43,962	42,207	40,477	35,602	37,042	37,058
	$ 359,260	$ 329,974	$ 313,724	$ 301,910	$ 289,740	$ 277,073	$ 275,857	$ 270,010
Liabilities and shareholders' equity								
Personal deposits	$ 101,381	$ 98,970	$ 93,010	$ 90,778	$ 89,632	$ 88,900	$ 88,777	$ 87,467
Other deposits	132,066	123,321	118,326	112,344	113,264	107,845	106,855	103,293
Other liabilities	99,855	81,460	79,321	76,704	66,775	61,427	62,194	61,440
Subordinated debentures	6,314	6,296	6,836	6,275	5,825	5,091	5,104	5,072
Non-controlling interest in subsidiaries	1,479	1,453	1,481	1,453	703	690	39	103
Total equity	18,165	18,474	14,750	14,356	13,541	13,120	12,888	12,635
	$ 359,260	$ 329,974	$ 313,724	$ 301,910	$ 289,740	$ 277,073	$ 275,857	$ 270,010
Selected average balances and off-balance sheet data								
Averages								
Assets	$ 342,200	$ 339,000	$ 321,900	$ 304,400	$ 291,200	$ 282,000	$ 278,600	$ 275,600
Loans and acceptances	205,275	205,241	197,328	191,231	184,690	181,507	180,302	172,725
Deposits	230,292	221,167	212,813	206,975	201,030	194,132	188,591	191,216
Common equity	16,349	14,466	12,496	11,983	11,174	10,880	10,670	10,528
Total equity	18,433	16,633	14,541	14,016	13,197	12,897	12,671	12,530
Assets under administration	1,337,700	1,271,800	1,198,700	1,242,800	1,175,200	1,147,400	1,099,400	1,027,300
Assets under management	104,800	110,500	110,400	112,500	92,300	95,200	94,000	86,400
Provision for credit losses								
Specific	$ 425	$ 236	$ 210	$ 178	$ 134	$ 172	$ 132	$ 133
General provision								
General allocated	108	–	–	97	8	–	35	30
General unallocated	(108)	–	–	(27)	32	–	5	10
Total general provision	–	–	–	70	40	–	40	40
Total	$ 425	$ 236	$ 210	$ 248	$ 174	$ 172	$ 172	$ 173
Net impaired loans as a % of loans and acceptances	.08%	.01%	.02%	(.11)%	(.11)%	(.06)%	(.12)%	(.20)%
Capital ratios								
Common equity/risk-adjusted assets	9.4%	9.5%	8.0%	7.6%	7.3%	7.2%	7.1%	7.1%
Tier 1	8.7	9.3	8.8	8.3	8.6	8.5	8.0	8.1
Total	11.8	12.3	12.3	11.5	12.0	11.5	11.1	11.4
Common share information								
Shares outstanding (in thousands)								
End of period	674,021	683,312	616,516	616,209	602,398	601,628	604,723	608,783
Average basic	681,758	658,296	616,365	608,824	602,108	602,494	608,285	612,708
Average diluted	687,334	663,996	621,907	614,686	606,710	605,833	611,114	618,111
Dividends per share	$ .36	$ .36	$ .33	$ .33	$ .30	$ .30	$ .27	$ .27
Book value per share	23.95	23.68	20.61	20.01	19.10	18.45	17.98	17.48
Common share price – High (4)	53.25	51.50	51.25	52.80	48.88	41.13	38.25	34.70
Low (4)	41.60	42.80	42.42	45.10	39.17	34.40	28.38	27.25
Close	46.80	50.96	42.95	48.20	48.30	39.65	34.95	29.53
Dividend yield	3.0%	3.1%	2.8%	2.7%	2.7%	3.2%	3.2%	3.5%
Dividend payout ratio	39	54	36	32	32	33	30	33

(1) Cash net income, cash diluted earnings per share and cash return on common equity are computed by adding back to net income the after-tax amount of amortization of goodwill and other intangibles. Further deducting the impact of special items results in core cash net income, core cash diluted earnings per share and core cash return on common equity.

(2) Earnings per share for the year may not equal the sum of the quarters.

(3) Net interest income as a percentage of average assets.

(4) Intraday high and low share price.

/ Glossary

Allowance for credit losses
The amount deemed adequate by management to absorb identified and probable credit related losses in the portfolio of loans, acceptances, guarantees, letters of credit, deposits with other banks and derivatives. The allowance is increased by the provision for credit losses, which is charged to income and decreased by the amount of charge-offs (write-offs in Canadian GAAP), net of recoveries.

Assets under administration (AUA)
Assets administered by a financial institution which are beneficially owned by clients and are therefore not reported on the consolidated balance sheet. Services provided in respect of assets under administration are of an administrative nature, including safekeeping, collecting investment income, settling purchase and sale transactions, and record keeping.

Assets under management (AUM)
Asset managed by a financial institution which are beneficially owned by clients and are therefore not reported on the consolidated balance sheet. Services provided in respect of assets under management include the selection of investments and the provision of investment advice. Assets under management may also be administered by the financial institution.

Bankers' acceptance
A bill of exchange or negotiable instrument drawn by the borrower for payment at maturity and accepted by a bank. The acceptance constitutes a guarantee of payment by the bank and can be traded in the money market. The bank earns a "stamping fee" for providing this guarantee.

Basis point (bp)
One one-hundredth of a percentage point (.01%).

Beta
The measure of a security's volatility relative to a market index.

Canadian GAAP
Canadian generally accepted accounting principles.

Capital Asset Pricing Model (CAPM)
A financial model used for valuing assets based on the relationship between risk and return. The bank uses CAPM to compute its cost of common equity.

Capital ratio (Canadian basis)
The percentage of risk-adjusted assets supported by capital using the guidelines of the Superintendent of Financial Institutions Canada based on standards issued by the Bank for International Settlements and Canadian GAAP financial information.

Capital ratio (U.S. basis)
The percentage of risk-adjusted assets supported by capital using the guidelines issued to U.S. banks by the Board of Governors of the Federal Reserve System and U.S. GAAP financial information.

Cash basis results and ratios
Cash return on common equity, cash earnings per share, cash diluted earnings per share and cash net income are computed by adding back to net income the after-tax amount of amortization of goodwill and other intangibles.

Commitments to extend credit
Credit facilities available to clients either in the form of loans, bankers' acceptances and other on-balance sheet financing, or through off-balance sheet products such as guarantees and letters of credit.

Cost of capital
Management's estimate of its weighted average cost of equity and debt capital.

Derivative
A derivative is a contract whose value is "derived" from interest rates, foreign exchange rates, or equity or commodity prices. Use of derivatives allows for the transfer, modification or reduction of current or expected risks, including interest rate, foreign exchange and other market risks. The most common types of derivatives include interest rate and cross currency swaps, foreign exchange forward contracts, foreign currency and interest rate futures, forward rate agreements, and foreign currency and interest rate options. Derivatives can be transacted either through organized exchanges or over-the-counter agreements.

Dividend payout ratio
Common dividends as a percentage of net income after preferred share dividends.

Dividend yield
Dividends per common share divided by the average of the high and low share prices.

Documentary and commercial letters of credit
Written undertakings by a bank on behalf of its client (typically an importer), authorizing a third party (e.g., an exporter) to draw drafts on the bank up to a stipulated amount under specific terms and conditions. Such undertakings are established for the purpose of facilitating international trade.

Earnings per share, basic
Net income less preferred share dividends divided by the average number of shares outstanding.

Earnings per share (EPS), diluted
Net income less preferred share dividends divided by the average number of shares outstanding adjusted for the dilutive effects of stock options and other convertible securities.

Economic Profit
Economic Profit is cash operating earnings (i.e., net income available to common shareholders excluding the after-tax impact of special items and amortization of goodwill and other intangibles) less a charge for the estimated cost of common equity.

Efficiency ratio
Non-interest expenses expressed as a percentage of gross revenue (i.e., net interest income and non-interest revenue). Used as a measure of productivity and for comparison with peers.

Foreign exchange spot and forward contract
A foreign exchange forward contract, which is a type of derivative, is a commitment to buy or sell a fixed amount of foreign currency on a future specified date at a set rate of exchange. A foreign exchange spot contract is a commitment to buy or sell a fixed amount of foreign currency for delivery within two business days of the contract date.

Forward rate agreement (FRA)
A contract which obliges two parties to make a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional amount.

Futures
A contract which creates an obligation to buy or sell a foreign currency or a financial instrument on a future date at a specified price established on a commodity exchange.

Goodwill/Amortization of goodwill
Goodwill represents the excess of the price paid for the acquisition of subsidiaries over the fair value of the net assets acquired, and up to the end of 2001, was amortized over appropriate periods of up to 20 years, except where a writedown was required to reflect permanent impairment. Effective November 1, 2001, as a result of a change in accounting standards, goodwill will no longer be amortized but will be tested for impairment at a reporting unit level on a periodic basis.

Guarantees and standby letters of credit
Primarily represent irrevocable assurances that a bank will make payments in the event that its client cannot meet its financial obligations to third parties. Certain other guarantees, such as bid and performance bonds, represent non-financial undertakings.

Hedge
A risk management technique used to insulate financial results from market, interest rate or foreign currency exchange risk (exposure) arising from normal banking operations. The elimination or reduction of such exposure is accomplished by establishing offsetting positions. For example, assets denominated in foreign currencies can be offset with liabilities in the same currencies or through the use of foreign exchange hedging instruments such as futures, options or foreign exchange contracts.

International
In the context of the annual report, the term international refers to Royal Bank of Canada's operations and clients outside of Canada.

Mark-to-market
Valuation at market rates, as of the balance sheet date, of securities and derivatives held for trading purposes.

Net interest income
The difference between what is earned on assets such as loans and securities and what is paid on liabilities such as deposits and subordinated debentures.

Net interest margin
Net taxable equivalent interest income divided by average interest-earning assets. It is a measure of how effectively a corporation utilizes its earning assets in relation to its sources of funding.

Nonaccrual loans/Impaired loans
Loans are classified as nonaccrual (impaired in Canadian GAAP) when, in the opinion of management, there is no longer reasonable assurance of the timely collection of principal and interest. Loans, other than credit card balances and government guaranteed loans, are automatically classified as nonaccrual when a payment is 90 days past due, unless the loan is well secured and in the process of collection.

Notional amount
The contract amount used as a reference point to calculate payments for derivatives.

Off-balance sheet financial instrument
A variety of products offered to clients which fall into two broad categories: (i) credit related arrangements which generally provide clients with liquidity protection, and (ii) derivatives, which are defined on the previous page.

Operating efficiency ratio
Operating non-interest expenses as a percentage of operating revenues.

Operating non-interest expenses
Non-interest expenses excluding special items, costs of Stock Appreciation Rights and certain acquisition expenses such as retention compensation.

Operating revenues
Revenues excluding special items.

Options (foreign currency, interest rate)
A contract in which the writer grants the purchaser the right, but not the obligation, either to buy (call option) or sell (put option) at or by a set date a set amount of foreign currency or a financial instrument at a set price.

Prepaid pension costs
The cumulative excess of amounts contributed to a pension fund over the amounts recorded as pension expense.

Provision for credit loss
The amount charged to income necessary to bring the allowance for credit losses to a level determined appropriate by management.

Repurchase agreements (REPOS)
Involve the sale of securities for cash at a near value date and the simultaneous repurchase of the securities for value at a later date.

Return on equity (ROE)
Net income, less preferred share dividends, expressed as a percentage of average common equity.

Reverse repurchase agreements (reverse REPOS)
Involve the purchase of securities for cash at a near value date and the simultaneous sale of the securities for value at a later date.

Risk
Financial institutions face a number of different risks that expose them to possible losses. These risks include credit risk, market risk, liquidity risk, insurance risk and operational risk.

Risk-adjusted assets
Used in the calculation of risk-based capital ratios. The face value of assets is discounted using risk-weighting factors in order to reflect a comparable risk per dollar among all types of assets. The risk inherent in off-balance sheet instruments is also recognized, first by adjusting notional values to balance sheet (or credit) equivalents, and then by applying appropriate risk-weighting factors.

Securities lending
Transactions in which a bank acts as an agent for the owner of a security, who agrees to lend the security under the terms of a pre-arranged contract to a borrower for a fee. The borrower must fully collateralize the security loan at all times. There are two types of securities lending arrangements, lending with and without credit or market risk indemnification. In securities lending without indemnification, the bank bears no risk of loss. For transactions in which the bank provides an indemnification, risk of loss occurs if the borrower defaults and the value of the collateral declines concurrently.

Securities sold short
A transaction in which the seller sells securities it does not own. The seller borrows the securities in order to deliver them to the purchaser. At a later date, the seller buys identical securities in the market to replace the borrowed securities.

Securitization
The process by which high-quality assets, mainly loans or mortgages, are pooled into standardized securities backed by these assets, which can be traded.

Special items
Items that are viewed by management as items that do not arise as part of normal day-to-day business operations or that are unusual in nature and could potentially distort the calculation of trends analyzed by management.

Stock Appreciation Rights (SARs)
Rights attached to stock options, which can be exchanged for a cash amount equal to the difference between the exercise price and the closing price of common shares on the day immediately preceding the day of exercise.

Superintendent of Financial Institutions (OSFI)
The primary regulator of federally chartered financial institutions and federally administered pension plans in Canada. OSFI's mission is to safeguard policyholders, depositors and pension plan members from undue loss.

Swaps (foreign currency, interest rate)
Contracts which oblige two parties to exchange currencies and/or the related interest flows (e.g., fixed-rate for floating-rate) on a specified notional amount for a specified period.

Taxable equivalent adjustment
An addition to interest income in order to gross up the tax-exempt income earned on certain securities (primarily loan substitute securities) to an amount which, had it been taxable at the statutory rate, would result in the same after-tax net income as appears in the financial statements. The gross-up of such income to a taxable equivalent basis permits a uniform measurement and comparison of net interest income.

Trust Capital Securities (RBC TruCS)
A form of innovative Tier 1 capital which is reported as a non-controlling interest in a subsidiary on the consolidated balance sheet.

U.S. GAAP
U.S. generally accepted accounting principles.

Value-At-Risk (VAR)
A generally accepted risk-measurement concept that uses statistical models to estimate within a given level of confidence the maximum loss in market value that the bank would experience in its trading portfolios from an adverse one-day movement in market rates and prices.

/ Directors and executive officers

Directors

W. Geoffrey Beattie (2001)
Toronto
President
The Woodbridge Company Limited
Deputy Chairman
The Thomson Corporation

George A. Cohon,
O.C., O.Ont. (1988)
Toronto
Founder and Senior Chairman
McDonald's Restaurants
of Canada Limited

G.N. (Mel) Cooper,
C.M., O.B.C. (1992)*
Victoria
Chairman and
Chief Executive Officer
Seacoast Communications
Group Inc.

Douglas T. Elix (2000)
Ridgefield, Connecticut
Senior Vice-President and
Group Executive
IBM Global Services
IBM Corporation

John T. Ferguson, F.C.A. (1990)
Edmonton
Chairman of the Board
Princeton Developments Ltd.
Chair of the Board
TransAlta Corporation

L. Yves Fortier, C.C., Q.C. (1992)
Montreal
Chairman
Ogilvy Renault

The Hon. Paule Gauthier,
P.C., O.C., O.Q., Q.C. (1991)
Quebec City
Senior Partner
Desjardins Ducharme
Stein Monast

Brandt C. Louie, F.C.A. (2001)**
West Vancouver
President and Chief
Executive Officer
H.Y. Louie Co. Limited
Chairman and
Chief Executive Officer
London Drugs Limited

J. Edward Newall, O.C. (1984)
Calgary
Chairman of the Board
NOVA Chemicals Corporation
Chairman of the Board
Canadian Pacific Railway Limited

Gordon M. Nixon (2001)
Toronto
President and
Chief Executive Officer
Royal Bank of Canada

David P. O'Brien (1996)
Calgary
Chairman and
Chief Executive Officer
PanCanadian Energy Corporation

Charlotte R. Otto (2000)
Cincinnati, Ohio
Global External Relations Officer
The Procter & Gamble Company

Robert B. Peterson (1992)
Toronto
Chairman, President and
Chief Executive Officer
Imperial Oil Limited

J. Pedro Reinhard (2000)
Midland, Michigan
Executive Vice-President and
Chief Financial Officer
The Dow Chemical Company

Hartley T. Richardson (1996)
Winnipeg
President and
Chief Executive Officer
James Richardson & Sons,
Limited

Kenneth C. Rowe, F.C.I.S. (1985)
Halifax
Chairman and
Chief Executive Officer
I.M.P. Group International Inc.

Guy Saint-Pierre, O.C. (1990)
Montreal
Chairman of the Board
Royal Bank of Canada
Chairman of the Board
SNC–Lavalin Group Inc.

Cecil W. Sewell, Jr. (2001)
Raleigh, North Carolina
Chairman Emeritus
RBC Centura Banks, Inc.

Robert T. Stewart (1988)*
West Vancouver
Company Director

Allan R. Taylor, O.C. (1983)*
Toronto
Retired Chairman and
Chief Executive Officer
Royal Bank of Canada

Kathleen P. Taylor (2001)**
Toronto
President, Worldwide
Business Operations
Four Seasons Hotels Inc.

Victor L. Young, O.C. (1991)
St. John's
Company Director

The date appearing after the name of each director indicates the year in which the individual became a director. The term of office of each director will expire at the next Annual Meeting of Shareholders on February 22, 2002.

* Not standing for re-election on February 22, 2002.
** Appointed November 20, 2001.

Executive officers – Group Management Committee

Peter W. Currie
Vice-Chairman and
Chief Financial Officer

Suzanne B. Labarge
Vice-Chairman and
Chief Risk Officer

Martin J. Lippert
Vice-Chairman and
Chief Information Officer

W. Reay Mackay
Vice-Chairman
Wealth Management

Gordon M. Nixon
President and
Chief Executive Officer

James T. Rager
Vice-Chairman
Personal & Commercial Banking

Irving Weiser
Chairman and
Chief Executive Officer
RBC Dain Rauscher

W. James Westlake
Chairman and
Chief Executive Officer
RBC Insurance

Charles M. Winograd
Vice-Chairman
Corporate & Investment Banking

/ Corporate governance

Royal Bank of Canada's corporate governance policies are designed to strengthen the ability of its Board of Directors to supervise management and to enhance long-term shareholder value.

The board's Corporate Governance Committee continuously reviews and assesses these policies, adapting them to changing needs and circumstances. The Committee's goal is to maintain high standards and to promote ongoing improvement in board effectiveness.

The bank's system of governance is consistent with The Toronto Stock Exchange guidelines for effective corporate governance. A point-by-point comparison of these guidelines with the bank's governance procedures is contained in the Management Proxy Circular issued in connection with the 2002 Annual Meeting.

Responsibilities: The board specifies those matters that require its approval and delegates others to management. Key functions of the board include succession planning, selecting senior management, evaluating management performance and effectiveness, reviewing strategy and major business decisions, identifying risks, and assessing the integrity and effectiveness of the bank's internal controls and management information systems.

Composition: The board derives its strength from the background, diversity, qualities, skills and experience of its members. With advice from outside consultants, the Corporate Governance Committee recommends to the board candidates suitable for nomination. Nominees are selected for qualities such as business judgment, integrity, business or professional expertise, international experience, residency and familiarity with geographic regions relevant to the bank's strategic priorities.

As of November 20, 2001, there were 22 directors. At the 2002 Annual Meeting, 19 directors will be elected. The Corporate Governance Committee reviews the composition and mandates of the board's five committees. Significant elements of the mandates and activities of the board committees are described on page 95.

Independence: To ensure board independence from management, an outside director, Mr. Guy Saint-Pierre, acts as Chairman of the Board and as chairman of the Corporate Governance Committee. Following every board meeting, he chairs sessions attended only by non-management directors.

Board policy permits no more than two board members from management. Currently only two directors, the President and Chief Executive Officer of the bank, and the Chairman Emeritus of RBC Centura Banks, Inc., are from management.

The bank complies with *Bank Act* provisions and The Toronto Stock Exchange guidelines with regard to directors being "affiliated" with or "related" to the bank. Only three directors are "affiliated" with and only three are "related" to the bank. In both cases, this is considerably below the limits required by the *Bank Act* and suggested in the stock exchange guidelines.

All committees of the board consist solely of outside directors, a majority of whom are unrelated to the bank.

To further strengthen independence, the Human Resources Committee and the board annually evaluate the CEO. In consultation with outside experts, they determine the compensation of the CEO and other senior management.

Information: The board has timely access to the information it needs to carry out its duties. Directors help set the agenda for board and committee meetings, receive a comprehensive package of information prior to each board and committee meeting, and attend an annual strategy planning session. As well, after each committee meeting, the full board receives a report on the committee's work. An ongoing education program and a Director's Guide, focusing on roles and responsibilities of board members, are provided for directors.

Ethical Behaviour: The bank's Code of Conduct and policies regarding compliance are reviewed by the board and set high standards for ethical behaviour throughout the organization.

The Code of Conduct provides all employees with the same frame of reference for dealing with sensitive and complex issues. It incorporates guiding principles such as upholding the law, confidentiality, integrity and individual responsibility, and provides for accountability if employees fail to meet the Code's standards.

The board has approved the establishment and mandate of an Ethics and Compliance Committee, composed of senior management. This committee has responsibility for ensuring that the bank's policies and management systems are appropriately implemented to ensure adherence to the principles outlined in the Code of Conduct.

Communications: The bank is committed to excellence and timeliness in its communications. The investor relations staff provide information to current and potential investors and respond to their inquiries. It is bank policy that every shareholder inquiry receives a prompt response from an appropriate officer. Senior executives, including the President and Chief Executive Officer, Chief Financial Officer and Senior Vice-President, Investor Relations, meet regularly with financial analysts and institutional investors. The bank's quarterly earnings conference calls with analysts and institutional investors are broadcast live and archived on the Internet and are accessible on a live and recorded basis via telephone to interested retail investors, the media and members of the public. Presentations at investor conferences are promptly made available on the Internet or via telephone. The bank also makes significant disclosure documents available on its investor relations Web site at: *rbc.com/investorrelations.*

Mandates and activities of board committees

The board delegates certain work to board committees. This allows in-depth analysis of issues by the committees and more time for the full board to discuss and debate items of business. Each committee annually evaluates its effectiveness in carrying out its mandate.

Audit Committee

- Reviews matters prescribed by the *Bank Act*, including annual and quarterly financial statements, and returns specified by the Superintendent of Financial Institutions Canada
- Meets separately with the external auditors, the Chief Internal Auditor and senior management to discuss matters deemed appropriate by the committee
- Requires management to implement and maintain appropriate systems of internal control and meets with the Chief Internal Auditor and with management to assess the adequacy and effectiveness of those systems
- Reviews investments and transactions that could adversely affect the well-being of the bank
- Reviews reports on significant litigation and regulatory compliance matters
- Reviews prospectuses relating to the issue of securities of the bank
- Reviews the duties, responsibilities, annual internal audit plan and staffing of the internal audit function and reviews and concurs in the appointment of the Chief Internal Auditor
- Meets with the Chief Internal Auditor to review any significant issues reported to management and management's responses to any such reports
- Together with the board, selects and evaluates the external auditors to be proposed for appointment by shareholders
- Reviews with the external auditors the external audit plan, the results of the audit, and the independence and objectivity of the external auditors, including formal written statements delineating relationships between the external auditors and the bank that may impact on such independence and objectivity, and recommends actions that the board should take to satisfy itself of the independence of the external auditors
- Reviews and approves policies and programs related to liquidity management and capital management to ensure compliance with the Canada Deposit Insurance Corporation Standards of Sound Business and Financial Practices (the CDIC Standards) and reviews measures implemented to ensure compliance with CDIC's Internal Control Standard

Members: G.N. Cooper, J.E. Newall, R.B. Peterson (Chair), J.P. Reinhard, R.T. Stewart, A.R. Taylor, K.P. Taylor*, V.L. Young

Conduct Review and Risk Policy Committee

- Reviews bank procedures for complying with the rules of the *Bank Act* concerning "related parties"
- Establishes and monitors procedures for restricting the use of confidential information, dealing with complaints, disclosing information to clients and resolving conflicts of interest
- Approves risk principles and reviews other significant investment, lending and other credit policies, standards and procedures in respect of a portfolio of loans, position risk, investments, foreign exchange risk, interest rate risk and other credit exposures
- Reviews the amount, nature, characteristics, concentration and quality of the bank's credit portfolio, as well as all significant exposures to credit risk and the adequacy of the bank's provisions for credit losses
- Reviews credits to directors or entities in which they are partners, directors or officers
- Reviews credits for amounts exceeding authorities delegated to management
- Reviews and approves the risk policies and procedures recommended by the bank's management and annually reviews the credit risk management, real estate appraisals, securities portfolio management, foreign exchange and interest rate risk management policies and programs to ensure compliance with the CDIC Standards

Members: J.T. Ferguson (Chair), P. Gauthier, B.C. Louie*, H.T. Richardson, K.C. Rowe, R.T. Stewart, V.L. Young

Corporate Governance Committee

- Makes recommendations regarding the effectiveness of the system of corporate governance, including the board program and forward agenda for board and committee meetings, the frequency and content of meetings, the need for any special meetings, communication processes between the board and management, mandates of board committees and policies governing size and composition of the board
- Assesses the performance of the board including its committees, and monitors directors' performance. As part of this process, directors periodically evaluate in writing the performance of the board and its committees, and the resulting data is analyzed by an independent outside consultant
- Reviews the credentials of directors standing for re-election
- Identifies and recommends to the board candidates suitable for nomination as directors, in consultation when necessary with independent outside consultants
- Reviews shareholder proposals and recommends to the board the bank's response to the proposals
- Advises management in the planning of the annual strategy meeting attended by directors and senior management
- Reviews the compensation of directors and, based on a report from an independent outside consultant, recommends appropriate adjustments

Members: L.Y. Fortier, J.E. Newall, D.P. O'Brien, K.C. Rowe, G. Saint-Pierre (Chair), S.D. Whittaker**

Human Resources Committee

- Reviews and approves principles for employee recruitment, hiring, training, compensation and evaluation
- Reviews management succession plans for executive officers
- Reviews the major compensation policies and recommends incentive programs to the board
- In consultation with the Corporate Governance Committee, annually evaluates the non-executive Chairman
- Reviews the position description for the CEO and annually evaluates the CEO's performance against corporate objectives approved by the board
- Recommends to the board the remuneration of the CEO and certain other senior executives
- Reviews the bank's pension plan performance and funded status

Members: W.G. Beattie, G.A. Cohon, D.T. Elix, L.Y. Fortier (Chair), P. Gauthier, D.P. O'Brien, R.B. Peterson, G. Saint-Pierre

Public Policy Committee

- Reviews whether the conduct of the bank's business is ethical and socially responsible
- Oversees the bank's communications policy, including processes for communicating with clients, employees, shareholders and the community
- Reviews policies designed to create a positive corporate image
- Reviews the bank's policy on and budget for political donations
- Reviews the charitable contributions policy and budget

Members: G.A. Cohon (Chair), G.N. Cooper, J.T. Ferguson, C.R. Otto, H.T. Richardson, A.R. Taylor, S.D. Whittaker**

* Appointed November 20, 2001.
** Retired October 1, 2001.

/ Principal subsidiaries

Principal subsidiaries (1)	Principal office address (2)	Carrying value of voting shares owned by the bank (3)
Royal Bank Mortgage Corporation (4)	Montreal, Canada	$ 816
Royal Trust Corporation of Canada (4)	Toronto, Canada	758
The Royal Trust Company	Montreal, Canada	398
Royal Mutual Funds Inc.	Toronto, Canada	2
RBC Capital Trust	Toronto, Canada	294
Connor Clark Limited	Toronto, Canada	64
Royal Bank Action Direct Inc.	Richmond Hill, Canada	116
RBC Technology Ventures, Inc.	Toronto, Canada	27
Royal Bank Holding Inc.	Toronto, Canada	10,553
RBC Insurance Holdings Inc.	Mississauga, Canada	
RBC Life Insurance Company	Mississauga, Canada	
Royal Bank DS Holding Inc.	Toronto, Canada	
RBC Dominion Securities Limited	Toronto, Canada	
RBC Dominion Securities Inc.	Toronto, Canada	
RBC Alternative Assets, Inc. (2)	New York, New York, U.S.	
RBC Alternative Assets, L.P. (2)	New York, New York, U.S.	
RBC Dominion Securities Corporation (5)	New York, New York, U.S.	
R.B.C. Holdings (Bahamas) Limited	Nassau, Bahamas	
Royal Bank of Canada Reinsurance (Cayman) Limited	George Town, Grand Cayman	
Royal Bank of Canada Insurance Company Ltd.	St. Michael, Barbados	
Finance Corporation of Bahamas Limited	Nassau, Bahamas	
Investment Holdings (Cayman) Ltd.	George Town, Grand Cayman	
Royal Bank of Canada (Barbados) Ltd.	St. Michael, Barbados	
Royal Bank of Canada (Caribbean) Corporation	St. Michael, Barbados	
RBC Holdings (USA) Inc. (2)	New York, New York, U.S.	4,040
RBC Dain Rauscher Corp. (2)	Minneapolis, Minnesota, U.S.	
RBC Insurance Holdings (USA) Inc.	Wilmington, Delaware, U.S.	
Liberty Life Insurance Co.	Greenville, South Carolina, U.S.	
RBC Holdings (Delaware) Inc.	Wilmington, Delaware, U.S.	
Prism Financial Corporation (2)	Chicago, Illinois, U.S.	
RBC Centura Banks, Inc.	Rocky Mount, North Carolina, U.S.	3,514
RBC Centura Bank	Rocky Mount, North Carolina, U.S.	
RBC Capital Investment Holdings (USA) Inc.	Wilmington, Delaware, U.S.	68
Royal Bank of Canada Financial Corporation	St. Michael, Barbados	4
Atlantis Holdings Limited	St. Michael, Barbados	489
RBC Finance B.V.	Amsterdam, Netherlands	2,390
Royal Bank of Canada Holdings (U.K.) Limited	London, England	
Royal Bank of Canada (Europe) Ltd.	London, England	
RBC Holdings (Channel Islands) Ltd.	Guernsey, Channel Islands	
Royal Bank of Canada (Channel Islands) Limited	Guernsey, Channel Islands	
RBC Investment Management (Asia) Ltd.	Hong Kong, China	4
RBC Global Services Australia Pty Ltd.	Sydney, Australia	43

(1) The bank owns 100% of the voting shares of each subsidiary, except Finance Corporation of Bahamas Limited (75%).
(2) Each subsidiary is incorporated under the laws of the state or country in which the principal office is situated, except for RBC Alternative Assets Inc., RBC Alternative Assets, L.P., RBC Holdings (USA) Inc., RBC Dain Rauscher Corp. and Prism Financial Corporation, which are incorporated under the laws of the state of Delaware, U.S.
(3) The carrying value (in millions of dollars) of voting shares is stated as the bank's equity in such investments.
(4) The subsidiaries have outstanding non-voting shares of which the bank, directly or indirectly, owns 100%.
(5) RBC Dominion Securities Limited owns 45% of RBC Dominion Securities Corporation.

/ Shareholder information

Corporate headquarters
Street address:
Royal Bank of Canada
200 Bay Street
Toronto, Ontario, Canada
Tel: (416) 974-5151
Fax: (416) 955-7800

Mailing address:
P.O. Box 1
Royal Bank Plaza
Toronto, Ontario
Canada M5J 2J5

Web site:
rbc.com

Transfer Agent and Registrar

Main Agent
Computershare Trust Company of Canada

Street address:
1800 McGill College Avenue
Montreal, Quebec
Canada H3A 3K9
Tel: (514) 982-7555, or
1-800-564-6253
Fax: (514) 982-7635

Mailing address:
P.O. Box 1900, Station "B"
Montreal, Quebec
Canada H3B 3L6

Web site:
computershare.com

Co-Transfer Agent (U.S.)
The Bank of New York
101 Barclay Street
New York, N.Y.
U.S. 10286

Co-Transfer Agent (United Kingdom)
Computershare Services PLC
Securities Services – Registrars
P.O. Box No. 82, The Pavilions,
Bridgwater Road, Bristol
BS99 7NH England

Stock exchange listings
(Symbol: RY)

Common shares are listed on:
Canada
Toronto Stock Exchange (TSE)
U.S.
New York Stock Exchange (NYSE)
Switzerland
Swiss Exchange (SWX)

All preferred shares are listed on The Toronto Stock Exchange.

Valuation Day price
For capital gains purposes, the Valuation Day (December 22, 1971) cost base for the bank's common shares is $7.38 per share. This amount has been adjusted to reflect the two-for-one share split of March 1981 and the two-for-one share split of February 1990. The one-for-one share dividend paid in October 2000 did not affect the Valuation Day value for the bank's common shares.

Shareholder contact
For change of address, shareholders are requested to write to the bank's Transfer Agent, Computershare Trust Company of Canada, at their mailing address, and for dividend and estate transfers, shareholders are requested to call the Transfer Agent at (514) 982-7555, or 1-800-564-6253.

Other shareholder inquiries may be directed to our Investor Relations department by writing to 123 Front Street West, 6th Floor, Toronto, Ontario, Canada M5J 2M2 or by visiting our Web site *rbc.com/investorrelations* or by calling (416) 955-7806.

Annual Meeting will be held on February 22, 2002
The bank's next Annual Meeting of Common Shareholders will be held on Friday, February 22, 2002 at 9:00 a.m. (Eastern Time) in the John W.H. Bassett Theatre, North Building, Metro Toronto Convention Centre, 255 Front Street West, Toronto, Ontario, Canada.

2002 quarterly earnings release dates

First quarter	Feb. 22
Second quarter	May 22
Third quarter	Aug. 20
Fourth quarter	Nov. 19

Direct deposit service
Shareholders may have their dividends deposited by electronic funds transfer directly to an account at any financial institution that is a member of the Canadian Payments Association. To arrange for this, please write to Computershare Trust Company of Canada at their mailing address.

Institutional investor, broker and security analyst contact
Institutional investors, brokers and security analysts requiring financial information should contact the Senior Vice-President, Investor Relations, by writing to 123 Front Street West, 6th Floor, Toronto, Ontario, Canada M5J 2M2 or by calling (416) 955-7803 or by fax to (416) 955-7800.

Common share repurchase
The bank is engaged in a normal course issuer bid through the facilities of The Toronto Stock Exchange. During the one-year period beginning June 22, 2001, and ending June 21, 2002, the bank may repurchase up to 18 million shares in the open market at market prices. The amount and timing of the purchases are to be determined by the bank.

A copy of the bank's Notice of Intention to file a normal course issuer bid may be obtained, without charge, by contacting the Secretary of the bank at the bank's Toronto mailing address.

Dividend dates for 2002
Subject to approval by the Board of Directors.

	Record dates	Payment dates
Common and preferred shares series J, K, N, O, P and S	Jan. 24	Feb. 22
	Apr. 24	May 24
	Jul. 24	Aug. 23
	Oct. 23	Nov. 22
Preferred shares series E	Last trading day of each month	12th day of the following month

La Banque Royale publie aussi son Rapport annuel en français.

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